

**PAYROLL PROCESSING SERVICES IN THE
CALIFORNIA MARKETPLACE**

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Payroll Processing Services in
the California Marketplace.

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PAYROLL PROCESSING SERVICES IN THE
CALIFORNIA MARKETPLACE

Prepared For:
SECURITY PACIFIC NATIONAL BANK

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PAYROLL PROCESSING SERVICES IN THE CALIFORNIA MARKETPLACE

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PAYROLL PROCESSING SERVICES IN THE CALIFORNIA MARKETPLACE

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I INTRODUCTION

I INTRODUCTION

- This study of Payroll Processing Services in the California marketplace was approved at a meeting held at Security Pacific National Bank (SPNB) on September 12, 1980.
- The final interview questionnaires and respondent profile were approved at a meeting held at SPNB on October 1, 1980.
- The interviews were based on the following definition of company size:

<u>Size</u>	<u>Annual Revenues</u>
Large Company	Revenues greater than \$150 million
Middle Market Company	Revenues between \$5 and \$150 million
Small Company	Revenues less than \$5 million

- Interviews were conducted between October 2 and November 6, 1980. The interview program covered telephone and on-site interviews with 126 users and 6 vendors. The user interview program, by company size, is shown in Exhibit I-1. Geographic distribution is shown in Exhibit I-2.
- Review meetings were held at SPNB on October 21, November 4 and December 1, 1980.
- Respondents were most interested in receiving a summary of the research results, which was promised early in the interview.

EXHIBIT I-1

INTERVIEW PROGRAM:
USER AND SERVICES VENDOR DISTRIBUTION

TYPE	INDUSTRY/ SUBCATEGORY	COMPANY SIZE			
		SMALL COMPANIES		MIDDLE MARKET COMPANIES	
		PLANNED	ACTUAL	PLANNED	ACTUAL
USER SERVICES	CONSTRUCTION	2	1	5	2
	MANUFACTURING	2	2	6	7
	WHOLESALE	2	2	5	6
	RETAIL	5	5	16	11
	FINANCE	2	2	6	4
	SERVICES	6	4	18	16
	OTHER	1	4	4	4
	TOTAL SERVICES	20	20	60	50
USER IN-HOUSE		0	27	0	29
TOTAL USERS	-	20	47	60	79
VENDOR SERVICES	SECURITY PACIFIC NATIONAL BANK	5	7	15	12
	OTHER/VENDORS	15	13	45	38
TOTAL VENDORS	-	20	20	60	50

EXHIBIT I-2

INTERVIEW PROGRAM:
GEOGRAPHIC DISTRIBUTION OF SERVICES USERS

AREA	SMALL COMPANIES		MIDDLE MARKET COMPANIES	
	PLANNED	ACTUAL	PLANNED	ACTUAL
NORTHERN CALIFORNIA	8	7	20	16
SOUTHERN CALIFORNIA	12	13	40	34
TOTAL	20	20	60	50

- Telephone interviews averaged 20 minutes for small companies, and 30 minutes for middle market companies. On-site interviews for middle market companies and for vendors averaged 90 minutes.
- User respondents were advised that they would not be identified by name.
- User respondents were not advised that the research was sponsored by SPNB.
- Definition of the terms used throughout this report can be found in Appendix B.
- User and vendor interview questionnaires are found in Appendix C.

II EXECUTIVE SUMMARY

II EXECUTIVE SUMMARY

- Fostered by the early and continued participation of major California banks, the market for customer payroll processing services in California is apparently vital and, in many respects, ahead of product offerings for the rest of the country.
- Exhibit II-1 shows that the current market balance for payroll processing services, exclusive of imputed, deposit-related credits, will shift from middle market to small companies, as small companies are induced to automate, primarily through computer services.
- While recognizing that Security Pacific National Bank (SPNB), the first to offer full-line payroll processing services to its small company customers, is the leading vendor in the fastest-growing market segment, INPUT offers the following recommendations together with a summary of related findings and conclusions.

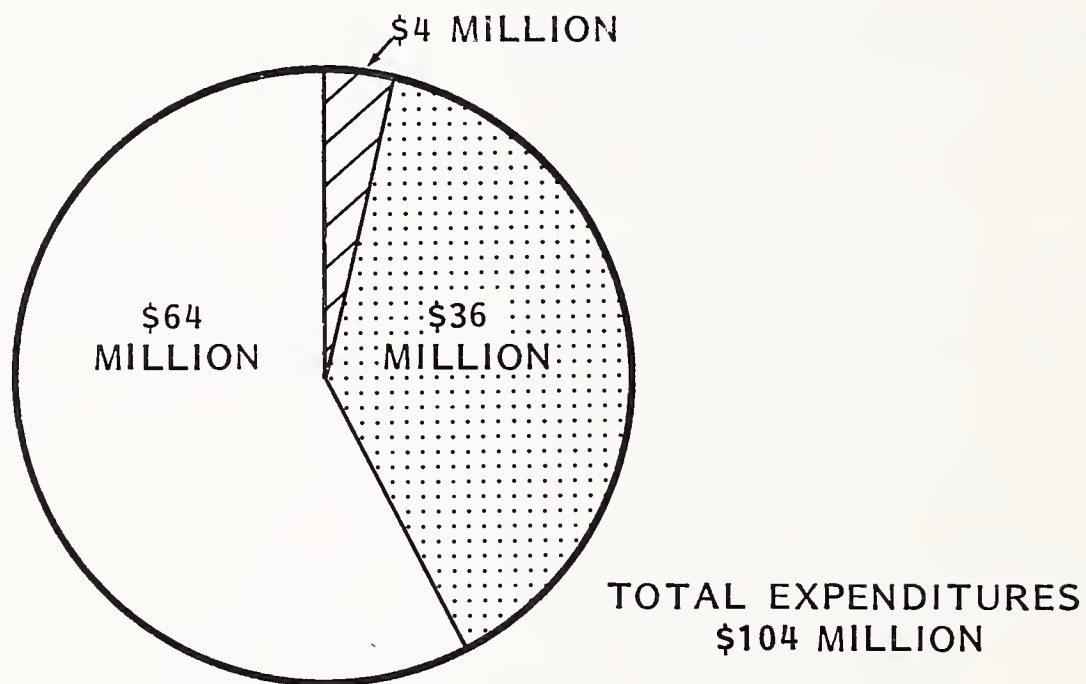
A. RECOMMENDATIONS

I. MANAGEMENT

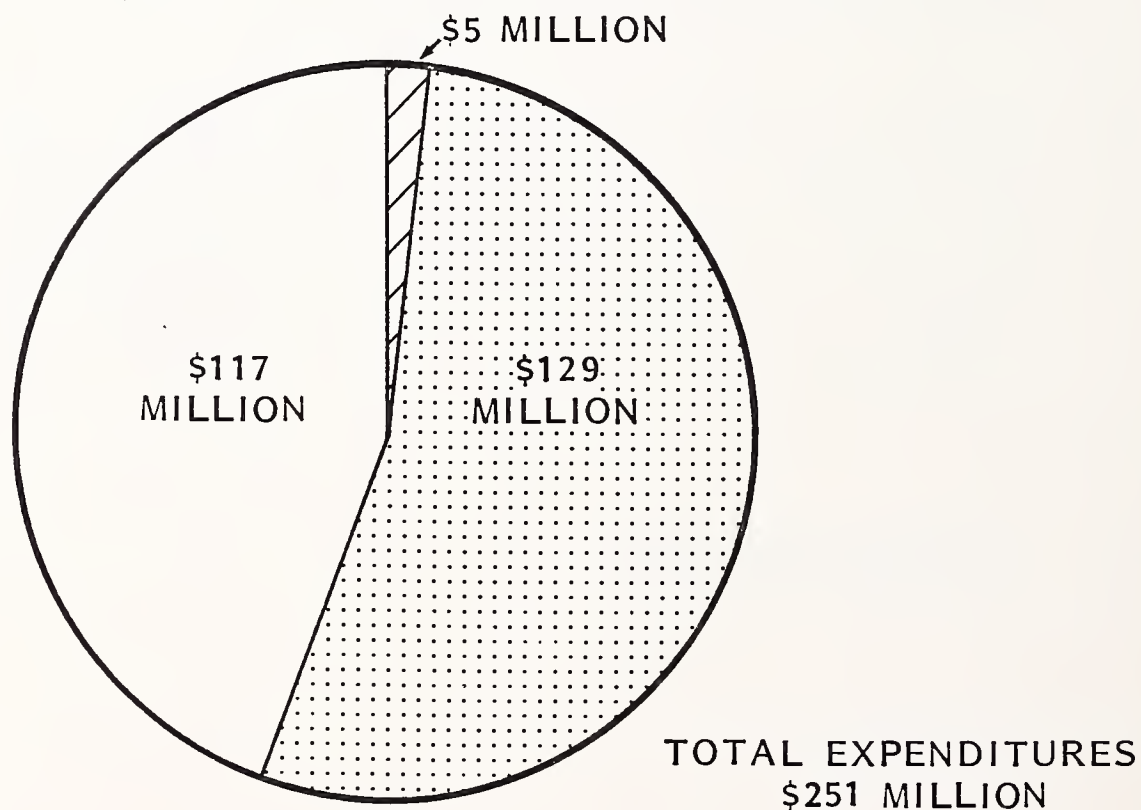
- Operating as an emerging money center bank in a market experiencing increasing change resulting from both deregulation within and increasing

EXHIBIT II-1

FORECAST OF USER EXPENDITURES FOR
PAYROLL PROCESSING SERVICES IN CALIFORNIA, 1980 AND 1985



1980



1985

-  LARGE COMPANIES - REVENUES >\$150 MILLION
-  MIDDLE MARKET COMPANIES - REVENUES \$5-150 MILLION
-  SMALL COMPANIES REVENUES - REVENUES <\$5 MILLION

outside competitive pressure, INPUT recommends that SPNB look for ways to expand business and financial services to its corporate customers. In this view, SPNB should continue and expand customer business services, specifically customer payroll services.

- As first priority, SPNB should capitalize on its leading position in the small company marketplace.
- SPNB should operate in a "holding pattern" with respect to the middle market segment until a competitive customer payroll system can be developed to expand services to SPNB corporate banking's primary target of interest, California middle market companies with revenues between \$5 and \$150 million.
- The optimum strategy for achieving bank management objectives is the joint-venture route. As shown in Exhibit II-2, joint venture is financially the best overall strategy.
- The recommended approach to joint-venture implementation is first to establish a separate subsidiary containing SPNB Business Services.
- SPNB Business Services would then be merged into the joint venture. It would retain sales, marketing and distribution responsibility, with the joint-venture partner having product development and processing responsibility.
- Both parties should invest equally in product development. SPNB would receive imputed credits for deposits and float, whereas the joint-venture partner would receive all processing profits except for initial payment of SPNB's product development investment.
- The joint-venture partner would own the payroll product, with SPNB buy-back provisions in the event of joint-venture termination.

EXHIBIT II-2

SUMMARY OF TOTAL SPNB PRETAX PROFITS, BY CUSTOMER PAYROLL SERVICE STRATEGY

STRATEGY	1982-1985 PRETAX TOTAL PROFITS (\$ MILLION)	INVESTMENT RECOVERY (\$ MILLION)	TOTAL 1982-1985 PRETAX PROFITS (\$ MILLION)
SELL OFF SPNB PAYROLL SERVICES	\$10.1	\$9.1	\$19.2
UPGRADE IN-HOUSE CAPABILITIES	23.7	-	23.7
PRIVATE LABEL BASIS	23.5	-	23.5
JOINT-VENTURE ARRANGEMENT	24.0	1.3*	25.3

*ADDITIONAL PAYOUT TO RECOVER \$1.3 MILLION OF DEVELOPMENT EXPENSES.

- INPUT recommends that SPNB management use the criteria shown in Exhibit II-3, consistent with corporate strategic and profitability objectives, in negotiating with interested joint-venture partners. Deciding on how to handle customer payroll services on a standalone basis neglects opportunities for expanded services in two areas, corporate and nationwide.
- In the absence of successful negotiations for a joint-venture arrangement, the recommended fall-back position is for SPNB to provide customer payroll services on a private label basis.

2. PRODUCT RECOMMENDATIONS

- As a first priority, SPNB should enhance its current customer payroll product with screen-driven data entry and, as much as possible, with a flexible report writer.
- SPNB should target marketing and sales efforts to the small company market segment.
- Only minimum and necessary effort should be expended on the current customer payroll product to permit marketing and sales to operate in a "holding pattern" with respect to middle market companies.
- New customer payroll product development should be based on a distributed data base architecture for transaction handling of input, inquiry and specialized reporting requirements, with sequential architecture for scheduled processing.
- New development should be targeted toward requirements for larger (revenues more than \$20 million) middle market companies, including optional data entry via end user screen-driven terminals, a comprehensive labor distribution subsystem, and the ability to develop specialized reports rapidly.

EXHIBIT II-3

CRITERIA FOR JOINT-VENTURE PROCESSING VENDOR SELECTION

CRITERIA
<ul style="list-style-type: none">• VENDOR HAS PAYROLL PROCESSING SERVICES CAPABILITY.• VENDOR HAS, OR PLANS TO HAVE, OPERATIONS CENTER(S) IN CALIFORNIA.• VENDOR HAS, OR IS IMPLEMENTING, PAYROLL SYSTEM CAPABLE OF:<ul style="list-style-type: none">- PHONE-IN PAYROLL.- SCREEN-DRIVEN DATA ENTRY.- PAYROLL SOFTWARE IN HIGH-LEVEL LANGUAGE.- PAYROLL SOFTWARE WELL DOCUMENTED.- FLEXIBLE REPORT WRITER CAPABILITY.• VENDOR COMMITTED TO PAYROLL MARKETPLACE.• VENDOR HAS A NATIONAL TELECOMMUNICATIONS NETWORK.• VENDOR SHOULD BE NONCOMPETITIVE IN PAYROLL PROCESSING RELATIONSHIPS WITH MAJOR CALIFORNIA BANKS.

- Adequate attention to data input and data base design will minimize effort in incorporating the existing client base into the new customer payroll system.

B. FINDINGS AND CONCLUSIONS

- The market for customer payroll services in California, in excess of \$100 million in 1980, will grow nearly 20% annually, exceeding \$250 million by 1985. As shown above in Exhibit II-1, annual growth will be greatest (29%) for the small company market segment, currently comprising 35% of total user expenditures for payroll processing services.
- The market forecast is for payroll processing services only. It does not include imputed revenues from deposit-related items, including float.
- Annual market growth will come from three sources: employment growth (3.5%), inflation (7%), and other growth (9%) from a combination of payroll services automation, primarily to small companies, and additional services offered to middle market companies.
- The study found no significant geographic differences in the makeup of the major industry groups in Northern and Southern California with respect to payroll processing services. The market is effectively homogeneous.
- Nearly 90% of California companies who are potential users of payroll processing services are small, with annual revenues under \$5 million.
 - Only 21,000 companies fall in the middle market, with revenues between \$5 and \$150 million.
- The major portion of small companies (60%) are not yet automated. Future automation of payroll will be primarily through computer payroll processing services.

- Middle market and small companies have almost an equal share of total California employment.
- By focusing corporate banking attention on middle market companies, SPNB corporate banking addresses only half of the payroll services marketplace.
- Three industry groups - manufacturing (27%), retail (21%) and services (24%) - account for over 70% of total employment, making them the best targets for payroll services.
- Major influencing factors of regulation, technology and competition all indicate that SPNB should retain and in fact expand business and financial services offerings, including payroll, to both middle market and smaller companies.
- The study detected no major shift by either middle market or small-size companies toward moving payroll processing either to in-house computers or to turnkey payroll systems.
- Except for customer services' support to small companies, both middle market and small company respondents were fairly well satisfied with their current payroll processing vendors.
 - Price is not a major factor in vendor selection. Price differentials exceeding 20% would be required before customers even took a look at another vendor.
 - Service - specifically timeliness, responsiveness and accuracy - is the major factor inducing potential change.
 - Other factors, making up an annual turnover rate exceeding 20%, are changing corporate bank relationships and needed product features.

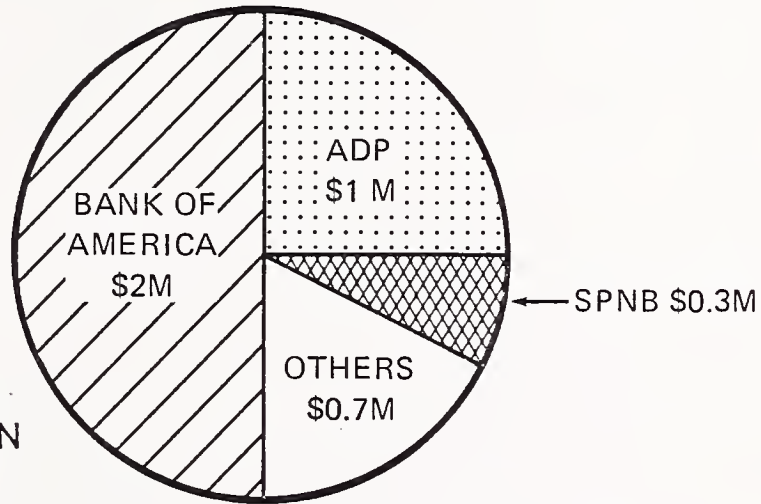
- Although middle market company respondents were slightly better than the norm, payroll processing services users showed little familiarity with services offered by vendors other than their current one. The data indicate that heightening user awareness through increased sales and marketing efforts, together with new product features, will increase sales.
- Nearly 40% of middle market company respondents were interested in using an intelligent CRT terminal for payroll data entry, validation and hopefully inquiry, if the terminal leased for about \$100 per month.
- Except for larger middle market company respondents wanting automated tape (tape cassette) input, few respondents were interested in using time clock or other automated means of supplying payroll input data.
- The study established that offering tax impound and tax report filing services for all states is a payroll services requirement for the middle market.
- Both small and middle market companies want 24-hour turnaround with payroll processing services.
 - Middle market companies are willing to pay a 10% premium for this service.
 - The majority of small companies feel that 24-hour turnaround is standard (i.e., the premium, if any, is imbedded in the price they already pay).
- While a basic but flexible labor distribution system satisfies the requirements of small and middle market companies with annual revenues up to \$20 million, the study also established that many larger middle market companies have labor/cost distribution requirements satisfied only by a sophisticated labor/cost system using advanced data base and customized reporting techniques.

- Middle market company respondents showed minimal interest in having the payroll processing vendor produce automated output to provide or integrate with corporate management reporting systems.
- The study found that, although some 20% of middle market companies use outside general accounting services, there was little existing tie-in with their current payroll services vendor. INPUT believes that SPNB should, like Bank of America and SBC, do more to couple other business services with payroll services to middle market companies.
- INPUT concluded that the study was not adequately able to investigate the degree of company interest in other bank corporate financial services tied to customer payroll services. This product area would have been better addressed to middle market company corporate executives, such as the chief financial officer or treasurer responsible for financial/cash management and planning.
- Vendor analysis indicated that Bank of America was the largest vendor of customer payroll services to large and middle market companies in California. As shown in Exhibit II-4, Bank of America and ADP control over 70% of the middle market segment.
- The small company market segment is widely held. With 18% market share, SPNB is the leading vendor in the fastest-growing market segment, at 29% annually.

EXHIBIT II-4

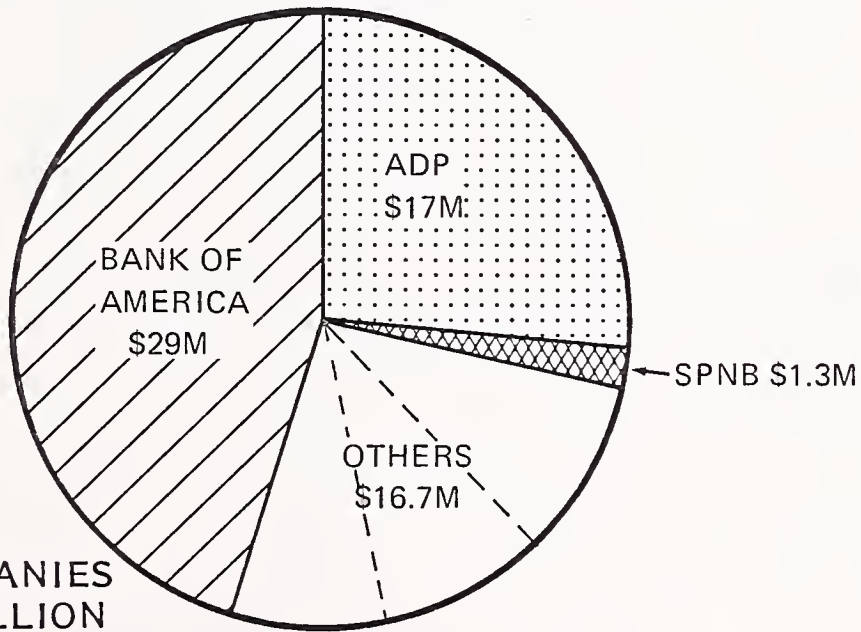
VENDOR SHARE OF CALIFORNIA PAYROLL SERVICES
MARKET, BY MARKET SEGMENT, 1980

LARGE COMPANIES
REVENUES \$150 MILLION



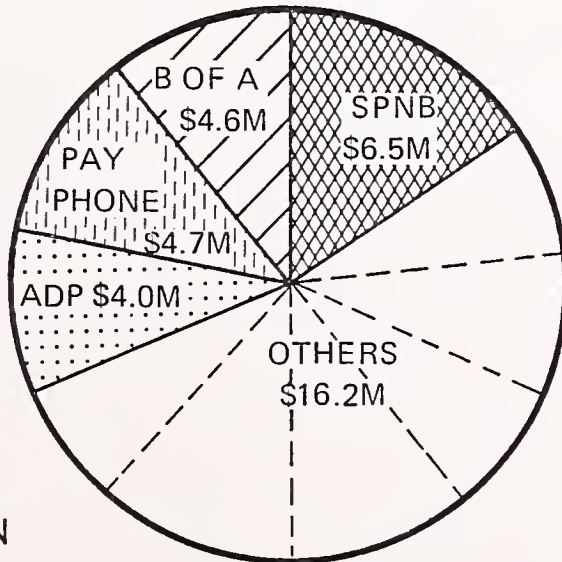
TOTAL \$4 MILLION

MIDDLE MARKET COMPANIES
REVENUES \$5-150 MILLION



TOTAL \$64 MILLION

SMALL COMPANIES
REVENUES <\$5 MILLION



TOTAL \$36 MILLION

III MARKET ANALYSIS

III MARKET ANALYSIS

A. MARKET STRUCTURE

I. CALIFORNIA COMPANIES

- There are over 450,000 reporting establishments in California in 1980, as shown in Exhibit III-1.
- Some 15% of companies have multiple reporting establishments. However, the vast majority of establishments (90%) report their own payroll information.
- For the purposes of this study, establishments will be equated to companies.
- The structure of companies by industry was determined by the following procedure:
 - Government data for 1975-1977 were used to determine growth rates for each company size within each industry group, projected to 1980.
 - Average annual growth rate for the 1975-1980 period was determined to be 3%.

EXHIBIT III-1

STRUCTURE OF COMPANIES BY INDUSTRY IN CALIFORNIA, 1980

INDUSTRY	TOTAL ESTABLISHMENTS BY ESTABLISHMENT SIZE										
	EMPLOYEES										PERCENT
	1-4	5-9	10-19	20-49	50-99	100-249	250-499	500-999	>1,000	TOTAL	
AGRICULTURE, FORESTRY, FISHING	4,419	1,333	772	280	70	140	0	0	0	7,014	1.5%
MINING	437	240	131	131	66	66	11	11	2	1,095	0.2
CONTRACT CONSTRUCTION	35,042	8,760	4,122	2,576	515	308	51	21	5	51,400	11.0
MANUFACTURING	15,000	6,945	6,616	6,288	2,877	2,219	699	288	164	41,096	8.8
TRANSPORTATION AND PUBLIC UTILITIES	7,526	2,749	2,028	1,674	768	461	92	31	31	15,360	3.3
WHOLESALE	18,366	7,662	5,877	3,906	930	372	74	7	2	37,196	7.9
RETAIL	56,093	25,452	14,764	8,925	3,856	826	220	33	11	110,180	23.5
FINANCE, BANKING, REAL ESTATE	25,629	5,409	3,632	3,396	908	344	118	27	21	39,484	8.4
SERVICES	107,112	29,402	15,615	8,305	3,156	1,827	432	183	83	166,115	35.4
TOTAL	269,624	87,952	53,557	35,481	13,146	6,563	1,697	601	319	468,940	-
PERCENT	57.4%	18.8%	11.4%	7.6%	2.8%	1.4%	0.4%	0.1%	0.1%	-	100%

- Four industry groups make up 79% of all companies:
 - Services, 35%.
 - Retail, 24%.
 - Construction, 11%.
 - Manufacturing, 9%.
- Nearly 73% of all companies have less than 10 employees.

2. CALIFORNIA EMPLOYMENT

- Employment in California exceeded 7.5 million in 1980, as shown in Exhibit III-2.
- The structure of employment by industry was determined by the following procedure:
 - Government data on employment in California for 1975-1977 were used to determine growth rates for every industry group, projected to 1980.
 - Total number of employees for each industry was distributed over each company size category. The total obtained by multiplying the number of companies by the average number of employees in each size category was adjusted on a proportional basis to derive the total number of employees in each industry group.
 - Average annual employment growth rate for 1975-1980 was determined to be 3.5%.
- Three industry groups account for 72% of total employment, making them the best targets for payroll services:

EXHIBIT III-2

STRUCTURE OF EMPLOYMENT BY INDUSTRY IN CALIFORNIA, 1980

	TOTAL EMPLOYMENT BY ESTABLISHMENT SIZE										
	EMPLOYEES										
	1-4	5-9	10-19	20-49	50-99	100-249	250-499	500-999	>1,000	TOTAL	PERCENT
AGRICULTURE, FORESTRY, FISHING	6,906	7,291	9,049	7,658	4,102	19,144	0	0	0	54,150	0.7%
MINING	964	1,853	2,167	5,056	5,458	12,736	4,549	9,097	4,410	46,290	0.6
CONTRACT CONSTRUCTION	68,831	60,224	60,725	88,549	37,935	52,937	18,783	15,468	9,821	413,273	5.5
MANUFACTURING	31,990	51,840	105,823	234,678	230,087	414,083	279,512	230,327	349,756	1,928,096	25.7
TRANSPORTATION AND PUBLIC UTILITIES	17,979	22,985	36,335	69,983	68,801	96,363	41,209	27,771	74,055	455,481	6.1
WHOLESALE	38,815	56,675	93,154	144,462	73,705	68,792	29,324	5,548	4,227	514,702	6.8
RETAIL	128,656	204,321	253,973	358,235	331,658	165,772	94,612	28,384	25,229	1,590,840	21.2
FINANCE, BANKING, REAL ESTATE	63,193	46,679	67,165	146,535	83,956	74,217	54,553	24,965	51,778	613,041	8.2
SERVICES	211,016	202,732	230,717	286,322	231,155	269,946	159,574	135,195	165,513	1,892,170	25.2
TOTAL	568,350	654,600	859,108	1,341,478	1,066,857	1,173,990	682,116	476,755	684,789	7,508,043	-
PERCENT	7.6%	8.7%	11.4%	17.9%	14.2%	15.7%	9.1%	6.3%	9.1%	-	100%

- Manufacturing, 26%.
- Services, 25%.
- Retail, 21%.
- Companies with less than ten employees represent only 16% of total employment.
- Companies employing between 10 and 100 employees, accounting for 44% of total employment, are first choice candidates for basic payroll services.
- The remaining companies (40% of total employment) represent a potential for more sophisticated payroll services.

3. GEOGRAPHIC CONSIDERATIONS

- An analysis was made of both company and employment distribution between Northern and Southern California based on the SPNB branch bank distribution system, as shown in Exhibit III-3.
 - Fifty-eight percent of total companies were located in Southern California.
 - Sixty-two percent of total employment is in Southern California.
- The analysis indicated that for the major industries there was no more than a 5% variation from total distribution between Northern and Southern California.
- INPUT concludes that the market for payroll services, although somewhat greater in Southern California, can be considered homogeneous.

EXHIBIT III-3

GEOGRAPHIC SEPARATION OF NORTHERN
AND SOUTHERN CALIFORNIA



SOUTHERN CALIFORNIA

4. MARKET STRATIFICATION

- The main thrust of the study, which focuses on companies with annual revenues between \$5 and \$150 million, requires correlation of company revenue with employment by industry category.
- The results of a sample of published data on company revenues and employees, within SIC codes, are shown in Exhibit III-4.
 - Wholesale companies, capital equipment-intensive, have the highest revenue per employee at \$130,000.
 - Services companies, the most labor-intensive, have the lowest revenue per employee at \$33,000.
- Small companies having from one to four employees, not considered targets of opportunity for offering payroll services, have been eliminated from further consideration.
- Applying revenue per employee factors to the structure of companies by industry (Exhibit III-1) resulted in a stratification of company by revenue size, as shown in Exhibit III-5.
 - Over 89% of all companies have annual revenues below \$5 million.
 - Only 21,000 companies fall in the SPNB "Middle Market" definition.
- Applying the revenues per employee factors to the structure of employment by industry (Exhibit III-2) resulted in a distribution of employment by revenue size, as shown in Exhibit III-6.
 - Employment is nearly equally divided between middle market and small companies.
- INPUT concludes that SPNB corporate banking's focus on the middle market addresses only half of the marketplace.

EXHIBIT III-4

AVERAGE REVENUES PER EMPLOYEE BY INDUSTRY, 1980

INDUSTRY	AVERAGE REVENUES PER EMPLOYEE
AGRICULTURE, FORESTRY, FISHING	\$ 58,000
MINING	65,000
CONSTRUCTION	68,000
MANUFACTURING	63,000
TRANSPORTATION AND PUBLIC UTILITIES	45,000
WHOLESALE	130,000
RETAIL	75,000
FINANCE, BANKING, REAL ESTATE	44,000
SERVICES	33,000

EXHIBIT III-5

DISTRIBUTION OF COMPANIES BY SIZE IN CALIFORNIA, 1980

INDUSTRY	NUMBER OF COMPANIES				
	SMALL COMPANIES (REVENUES <\$5M)	MIDDLE MARKET COMPANIES (REVENUES (\$5-150M)	LARGE COMPANIES (REVENUES >\$150M)	TOTAL	PERCENT
ARGRICULTURE, FOR- ESTRY, FISHING	2,385	210	0	2,595	1.3%
MINING	502	155	1	658	0.3
CONTRACT CONSTRUCTION	15,458	898	2	16,358	8.2
MANUFACTURING	19,849	6,165	82	26,096	13.1
TRANSPORTATION AND PUBLIC UTILITIES	7,218	600	16	7,834	3.9
WHOLESALE	13,539	5,290	1	18,830	9.5
RETAIL	49,141	4,941	5	54,087	27.1
BANKING AND FINANCE	13,345	500	10	13,855	7.0
SERVICES	56,478	2,502	23	59,003	29.6
TOTAL	177,915	21,261	140	199,316	-
PERCENT	89.3%	10.6%	0.1%	-	100%

EXHIBIT III-6

DISTRIBUTION OF EMPLOYMENT
BY COMPANY SIZE IN CALIFORNIA, 1980

INDUSTRY	TOTAL NUMBER OF EMPLOYEES				
	SMALL COMPANIES (REVENUES < \$5M)	MIDDLE MARKET COMPANIES (REVENUES \$5-150M)	LARGE COMPANIES (REVENUES > \$150M)	TOTAL	PERCENT
AGRICULTURE, FORESTRY, FISHING	23,998	23,246	0	47,244	0.7%
MINING	9,076	33,840	2,410	45,326	0.6
CONTRACT CONSTRUCTION	209,498	127,644	7,300	344,442	5.0
MANUFACTURING	392,341	1,264,165	239,600	1,896,106	27.3
TRANSPORTATION AND PUBLIC UTILITIES	198,104	184,393	55,005	437,502	6.3
WHOLESALE	150,429	322,458	3,000	475,887	6.9
RETAIL	816,529	627,555	18,100	1,462,184	21.1
FINANCE, BANKING, REAL ESTATE	344,335	169,905	35,608	549,848	7.9
SERVICES	950,926	634,225	96,003	1,681,154	24.2
TOTAL	3,095,236	3,387,431	457,026	6,939,693	-
PERCENT	44.6%	48.8%	6.6%	-	100%

B. MARKET FORECAST

I. ASSUMPTIONS

- The forecast relates only to user expenditures for payroll services. The approach does not include revenues that accrue as a result of interest imputed on deposits for payroll accounts, or for float during the clearance period.
- The forecast assumes employment growth at an annual 3.5% rate over the five-year forecast period.
- It also assumes an annual 7% price increase for payroll processing services due to inflation over the forecast period, 1980-1985.
- Data resulting from the interview sample of 126 users is representative of the entire marketplace.

2. MARKET POTENTIAL IN 1980

- The potential market, representing total expenditures for processing payroll as if all 6.9 million California employees were paid using services vendors, is nearly \$240 million, as shown in Exhibit III-7.
- Total market potential was determined according to the following method:
 - Total employees from distribution of employment by company size (Exhibit III-6).
 - Average cost per check, and average number of payrolls per month from respondent data (see Chapter IV, Exhibits IV-6 and IV-8) giving average annual cost per employee.

EXHIBIT III-7

MARKET POTENTIAL FOR PAYROLL
PROCESSING IN CALIFORNIA, 1980

COMPANY SIZE	TOTAL EMPLOYEES	AVERAGE COST PER CHECK (\$)	AVERAGE NUMBER OF PAYROLLS PER MONTH	AVERAGE ANNUAL COST PER EMPLOYEE (\$)	ANNUAL EXPEN- DITURES (\$ MILLION)
LARGE REVENUES >\$150M	457,000	\$0.90	2.4	\$25.90	\$ 12
MIDDLE MARKET REVENUES \$5-150M	3,387,000	1.10	2.4	31.70	107
SMALL REVENUES <\$5M	3,095,000	1.20	2.7	38.90	120
OVERALL	6,939,000	-	-	\$34.40	\$239

- Total employees by average annual cost per employee, giving annual 1980 expenditures by company size.
- Market potential for middle market companies (45% of total potential) is somewhat less than that for small companies (50%).

3. PAYROLL AUTOMATION IN 1980

- Determining the portion of payroll market potential represented by processing services requires assessing the method of processing.
- The data obtained from the sample of 126 user interviews on middle market and small companies were used to determine the portion of payrolls processed manually, on an in-house computer, or by a services vendor. Distribution by company size is shown in Exhibit III-8.
 - The method of automation used by large companies, accounting for only 5% of total potential expenditures, is INPUT's best judgement.
- The major portion (60%) of middle market companies already uses computer services.
- The major portion (60%) of small companies is still not automated.

4. USER PAYROLL EXPENDITURES IN 1980

- Distributing the market potential (Exhibit III-7) according to processing method (Exhibit III-8) determines payroll expenditures by method within company size, as shown in Exhibit III-9.
- Over 40%, or \$104 million, of total user expenditures for paying people in California were for outside processing services.
- Nearly 35% of the market potential in 1980 is still accomplished manually.

EXHIBIT III-8

METHOD OF PAYROLL PROCESSING
BY COMPANY SIZE IN 1980

COMPANY SIZE	METHOD OF PROCESSING			TOTAL
	MANUAL	IN-HOUSE	OUTSIDE SERVICES	
LARGE REVENUES (>\$150M)	0%	70%	30%	100%
MIDDLE MARKET REVENUES (\$5-150M)	10	30	60	100%
SMALL REVENUES (<\$5M)	60	10	30	100%

EXHIBIT III-9

DISTRIBUTION OF PAYROLL EXPENDITURES IN CALIFORNIA
BY COMPANY SIZE, 1980

COMPANY SIZE	EXPENDITURES (\$ MILLION)				PERCENT
	MANUAL	IN-HOUSE	OUTSIDE SERVICES	TOTAL	
LARGE REVENUES (>\$150M)	\$ 0	\$ 8	\$ 4	\$ 12	5%
MIDDLE MARKET REVENUES (\$5-150M)	11	32	64	107	45
SMALL REVENUES (<\$5M)	72	12	36	120	50
TOTAL	\$83	\$52	\$104	\$239	-
PERCENT	35%	22%	43%	-	100%

- Over 85% of this portion is with small companies.

5. MARKET POTENTIAL IN 1985

- Companies will spend nearly \$400 million to pay over 8.2 million employees in California in 1985, as shown in Exhibit III-10.
- The forecast was determined as follows:
 - Average annual growth rates averaging 3.5% were applied to 1980 employment, resulting in total employment by company size in 1985.
 - An average annual 7% price increase in payroll processing services was applied to the 1980 average annual cost per employee, resulting in the corresponding 1985 cost.
 - Total employees by average annual cost per employer resulted in 1985 annual expenditures by company size.

6. PAYROLL AUTOMATION IN 1985

- Based on respondents' intentions together with INPUT's best judgement on a shift in method of payroll automation, the forecast of payroll automation by company size in 1985 is shown in Exhibit III-11.
- A major move toward automation will occur when small companies shift from manual systems primarily to computer services.

7. USER PAYROLL EXPENDITURES IN 1985

- Distributing the 1985 Market Potential (Exhibit III-10) according to processing method (Exhibit III-11) determines user payroll expenditures by method within company size, as shown in Exhibit III-12.

EXHIBIT III-10

FORECAST OF MARKET POTENTIAL FOR
PAYROLL SERVICES IN CALIFORNIA, 1985

COMPANY SIZE	TOTAL EMPLOYEES 1980	AVERAGE ANNUAL GROWTH 1985/1980 (PERCENT)	TOTAL EMPLOYEES 1985	AVERAGE ANNUAL COST PER EMPLOYEE 1985 (\$)	1985 ANNUAL EXPEN- DITURES (\$ MILLION)
LARGE REVENUES (>\$150M)	457,000	4.0%	555,000	\$36.30	\$ 20
MIDDLE MARKET REVENUES (\$5-150M)	3,387,000	3.6	4,045,000	44.50	180
SMALL REVENUES (<\$5M)	3,095,000	3.3	3,641,000	54.60	199
OVERALL	6,939,000	3.5%	8,241,000	\$48.40	\$399

EXHIBIT III-11

FORECAST OF PAYROLL PROCESSING METHODS
BY COMPANY SIZE IN 1985

COMPANY SIZE	METHOD OF PROCESSING			TOTAL
	MANUAL	IN-HOUSE	OUTSIDE SERVICES	
LARGE REVENUES (>\$150M)	0	75%	25%	100%
MIDDLE MARKET REVENUES (\$5-150M)	0	35	65	100%
SMALL REVENUES (<\$5M)	18	17	65	100%

EXHIBIT III-12

DISTRIBUTION OF USER PAYROLL EXPENDITURES IN CALIFORNIA
BY COMPANY SIZE, 1985

COMPANY SIZE	EXPENDITURES (\$ MILLION)				PERCENT
	MANUAL	IN-HOUSE	SERVICES	TOTAL	
LARGE REVENUES (>\$150M)	\$ 0	\$ 15	\$ 5	\$ 20	5%
MIDDLE MARKET REVENUES (\$5-150M)	0	63	117	\$180	45
SMALL REVENUES (<\$5M)	36	34	129	\$199	50
TOTAL	\$36	\$112	\$251	\$399	-
PERCENT	9%	28%	63%	-	100%

- Over 60%, or \$250 million, of total user expenditures will be for outside services.
- The portion expected for in-house processing will increase from 21% to 28% of total user expenditures.

8. PAYROLL PROCESSING SERVICES FORECAST, 1980-1985

- The market for payroll processing services, over \$100 million in 1980, will exceed \$250 million by 1985, a 19% AAGR, as shown in Exhibit III-13.
- Processing services to middle market companies will increase about 6% in real terms, as some market growth is lost in a shift to in-house processing.
- Processing services to small companies, growing at a 29% AAGR, fostered by services competition to induce user automation, will claim half of total expenditures by 1985.
- INPUT concludes that the best market opportunity is offering payroll processing services to small companies in the California marketplace.

EXHIBIT III-13

MARKET FORECAST OF PAYROLL PROCESSING
SERVICES IN CALIFORNIA, 1980-1985

COMPANY SIZE	SERVICES EXPENDITURES (\$ MILLION)		1985/1980 GROWTH (PERCENT)
	1980	1985	
LARGE REVENUES (>\$150M)	\$ 4	\$ 5	11%
MIDDLE MARKET REVENUES (\$5-150M)	64	117	13
SMALL REVENUES (< \$5M)	36	129	29
OVERALL	\$104	\$251	19%

IV REQUIREMENTS ANALYSIS

IV REQUIREMENTS ANALYSIS

A. INFLUENCING FACTORS

I. REGULATION

- The trend toward deregulation evidenced by the 1980 Monetary Control Act will impact payroll services by establishing a price mechanism for both float and check clearance services.
- Federal Reserve banks will be required to competitively price paper and electronic funds clearance services.
- Emphasis will be placed on reducing float.
- Over time it will become more economic to process payroll deposits electronically than to clear payroll checks.
- Recent Treasury regulation requiring more frequent tax deposit transfer will reduce the value of impound deposits to banks offering payroll services.
- The net impact of deregulation in the near term will be on the one hand to reduce float, and on the other to raise the imputed value of that increment remaining by virtue of offering payroll services.

- Deregulation over time implies national banking, enabling bank processing vendors to provide corporate business services on a uniform basis nationwide.
- Continued federal and state regulatory change forces payroll vendors to expend increasingly scarce programming effort and significant sums of money keeping payroll programs up to date. Economies of scale favor a few specialized payroll vendors keeping software up to date for the mass of corporate users. The following are but a few of the pending changes forcing the next round of payroll revisions:
 - Social services tax increases.
 - Federal tax cut.
 - Pension plan contributions.
 - Garnishment for support of dependent children of divorced parents.

2. TECHNOLOGY

- Commercial banks offered payroll and other general business services at a time when there were few, if any, other vendors in the marketplace. Over the years payroll services have become much more complex, commercial computer services vendors like ADP and SBC have successfully offered competitive services, sophisticated payroll software packages are available for in-house systems, and small business computers and minicomputers are beginning to automate the lower end of the payroll marketplace.
- Increasing analysis and programming costs together with an industrywide shortage of trained analyst/programming personnel suggest that payroll processing services have become specialized in a mature market.

- Perhaps the time has come for banks to relinquish direct payroll processing services, as they have increasingly done in the areas of credit card processing and correspondent bank data processing services.
- Increasing transportation costs, in light of near-term constant and future rapid decreases in electronic transmission costs, strongly favor future bank and corporate company communications via electronic means.
- Hardware technology continues to reduce the cost of intelligent terminals, key to corporate financial information interchange, including payroll with commercial banks.
- Developing strategies that place electronic information interchange capability between middle market companies and SPNB will allow the latter to offer a variety of financial services, including payroll.
- The decreasing cost of magnetic disk storage has made feasible transaction processing approaches using data base management systems. Such systems will prove an essential basis for commercial banks offering a full line of financial services. Data base capability for payroll services will prove most effective on a distributed basis for data entry, inquiry and specialized report preparation.

3. COMPETITION

- Competition from within the banking industry is a given.
 - Bank of America is aggressively expanding its payroll services offering to small companies.
 - Western Bancorp is offering uniform services across state lines, currently under individual member bank label.

- Citibank is expanding financial services offerings in the corporate and consumer marketplace.
- Nonbank companies, unfettered by banking regulations, are expanding their portfolios of financial services offerings.
 - Sears Roebuck is just finishing its corporate reorganization to expand its financial services offerings nationwide.
 - Merrill Lynch offers a diversified portfolio of financial services, including debit card, mortgage lending, money market funds and checking accounts on a national basis.
- INPUT concludes that all the influencing factors cited above suggest that SPNB should hold on to and expand its financial services offerings, including business services such as payroll.

B. USER ANALYSIS

I. CURRENT PAYROLL SERVICE USAGE

- INPUT interviewed 50 middle market companies and 20 small companies that were users of payroll processing services.
- Another 29 middle market companies and 27 small companies that did their payrolls in-house were also interviewed.
- As shown in Exhibit IV-1, the major portion (86%) of middle market companies doing payroll in-house, processed their payrolls on their own computers, whereas small companies used mostly (67%) manual methods.

EXHIBIT IV-1

HOW PAYROLL IS ACCOMPLISHED, AS REPORTED
BY RESPONDENTS DOING PAYROLL IN-HOUSE

COMPANY SIZE	NUMBER	AVERAGE ANNUAL REVENUES (\$MILLION)	MANUAL	IN-HOUSE COMPUTER	FUTURE PLANS (2-4 YEARS)		
					SHIFT TO SERVICES	SHIFT TO MAIN- FRAME	INSTALL TURNKEY
MIDDLE MARKET REVENUES (\$5-150M)	29	\$33.0	4	25	1	3	1
SMALL REVENUES (<\$5M)	27	\$ 2.1	18	9	1	1	4

- Middle market respondents currently accomplishing payroll in-house for the most part planned to continue processing payroll on their in-house computers.
- Small company respondents currently accomplishing payroll in-house showed some tendency to consider turnkey systems, but by and large were indefinite as to their future plans for payroll processing.

2. SATISFACTION WITH CURRENT PAYROLL SERVICES

- Respondents were asked to rate on a scale of 10 to 1, where 10 is high (100%), their degree of satisfaction with three aspects of their current payroll processing service:
 - Overall service.
 - Documentation, including training.
 - Customer service, including handling of questions and problems.
- Results for middle market companies are shown in Exhibit IV-2.
- Middle market customers were least satisfied with customer service.
- Although middle market companies were in an overall sense satisfied with their payroll services, there were some "horror stories."
- INPUT analyzed comments from those respondents who rated any aspect below 50%.
- Although most of the comments (about 75%) were service-related, particularly customer service, a number were product-related.
- Typical respondent comments related to user dissatisfaction are shown in Exhibit IV-3.

EXHIBIT IV-2

EVALUATION OF COMPUTER SERVICES BY MIDDLE MARKET COMPANY RESPONDENTS

PAYROLL SERVICES VENDOR	NUMBER	AVERAGE TIME WITH VENDOR (YEARS)	OVERALL SERVICE		TRAINING AND DOCUMENTATION		CUSTOMER SERVICE	
			AVERAGE	LOW	AVERAGE	LOW	AVERAGE	LOW
BANK OF AMERICA	13	4.3	7.8	7	7.8	6	7.8	5
ADP/UCB	15	3.4	7.8	3	8.0	5	7.0	2
SECURITY PACIFIC NATIONAL BANK	12	3.1	8.0	6	8.0	5	7.3	3
SBC/UNION	3	4.5	7.0	6	8.3	8	5.3	2
BRADFORD/CROCKER	2	3.7	7.0	5	8.5	8	4.8	3
OTHER	5	4.2	8.2	5	8.0	4	8.2	4
OVERALL	50	3.8	7.8	3	8.0	4	7.2	2

EXHIBIT IV-3

TYPICAL MIDDLE MARKET COMPANY RESPONDENTS' COMMENTS
ON DISSATISFACTION WITH CURRENT PAYROLL SERVICE

"Won't maintain an adequate Master File for us."

"The service involves a lot of paperwork."

"The way manual checks are handled is very confusing."

"They have little training available for new payroll clerks after initial setup."

"Do not always make right adjustments. Hard to get hold of a representative."

"Personnel changes have altered continuity of their service."

"Turnaround is very poor, and they don't pick up or deliver."

"Don't meet their deadline. They put the burden on customer for data entry."

"Lately we can't get our representatives when we call. Other representatives can't help us as well."

"They always answer our questions but it seems as if their line is always busy."

"Customer service is not very helpful."

- The average time middle market respondent companies were with their current payroll vendor implies a 26% annual turnover rate.
- Results for small companies are shown in Exhibit IV-4.
- Small companies were uniformly satisfied with their current payroll services - more satisfied than middle market companies.
- An analysis of respondents' ratings below 50% indicated that what little dissatisfaction existed was with customer service rather than product offerings.
- Typical respondents' comments related to dissatisfaction are shown in Exhibit IV-5.
- The average time middle market respondent companies were with their current vendor implies a 30% annual turnover rate.

3. PRICE

- Middle market company respondents spent an average \$1.07 each time an employee was paid, as shown in Exhibit IV-6.
- The small price variation (10%) between vendors indicates the competitive nature of payroll processing services.
- Average pay periods per month (2.4) indicated that bimonthly payrolls dominate the middle market company marketplace.
- The distribution of Bank of America data, with respect to separate handling locations, was significantly greater (4.3) than for the other vendors, as shown in Exhibit IV-7. INPUT attributes the difference in use of separate handling locations primarily to the large number of Bank of America branch locations. Vendors perceive this as an advantage to offering payroll services in California.

EXHIBIT IV-4

SMALL COMPANY RESPONDENTS' EVALUATION OF COMPUTER SERVICES

PAYROLL SERVICES VENDOR	NUMBER	AVERAGE TIME WITH VENDOR (YEARS)	OVERALL SERVICE		DOCUMENTATION TRAINING		CUSTOMER SERVICE	
			AVERAGE	LOW	AVERAGE	LOW	AVERAGE	LOW
SECURITY PA - CIFIC NATIONAL BANK	7	3.4	8.6	6	8.6	3	8.6	4
OTHERS	13	3.2	9.1	8	9.0	5	8.9	8
OVERALL	20	3.3	8.9	6	8.8	3	8.8	4

EXHIBIT IV-5

TYPICAL SMALL COMPANY RESPONDENTS' COMMENTS ON DISSATISFACTION WITH CURRENT PAYROLL SERVICES

"Do not give out adequate instructions for filling out cards."

"It takes a lot of time in the beginning to become acquainted with how to do it."

"Have to call three to four times a month, but then they are pretty helpful."

"Reluctant to help, service representatives are limited in what they can do."

"Hard to get on the phone."

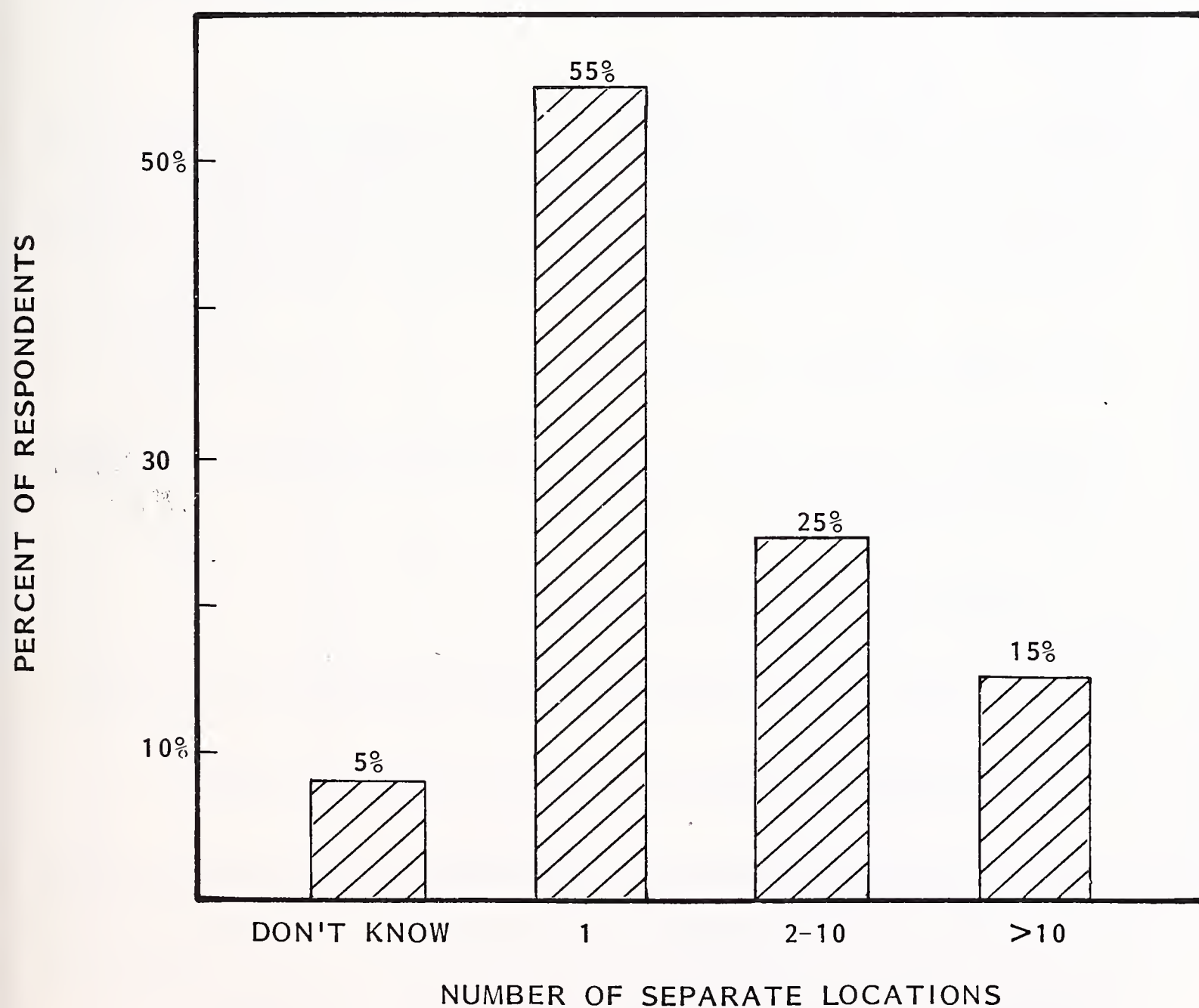
EXHIBIT IV-6

PAYROLL COST AS REPORTED BY
MIDDLE MARKET COMPANY RESPONDENTS

VENDOR	AVERAGE EMPLOYEES	AVERAGE PAY PERIODS PER MONTH	AVERAGE COST PER EMPLOYEE PER PAYROLL	AVERAGE LOCATIONS FOR SEPARATE HANDLING
BANK OF AMERICA	170	2.2	\$1.10	4.3
ADP/UCB	130	2.6	1.04	1.2
SECURITY PACIFIC NATIONAL BANK	190	2.2	0.97	1.1
OTHERS	160	2.6	0.96	1.7
OVERALL	165	2.4	\$1.07	2.1

EXHIBIT IV-7

DISTRIBUTION OF SEPARATE HANDLING
LOCATIONS FOR PAYROLL SERVICES,
AS REPORTED BY RESPONDENTS USING
BANK OF AMERICA PAYROLL SERVICES



- Small companies spent an average of \$1.20 each time an employee was paid, as shown in Exhibit IV-8.
- The market differential in price between SPNB and other vendors is attributed to the effect of minimum charges for companies with a small number of employees.
- Small companies, generally more service-oriented, pay their people more frequently (2-7) times per month than do middle market companies in California.
- Exhibit IV-9 shows that the major portion of all respondents reported that vendor pricing was about right. This finding is consistent with both the narrow range of vendor price charged (Exhibit IV-6) and price as a factor to induce changing vendors (See Processing Service Alternatives, Exhibit IV-11).

4. PROCESSING SERVICE ALTERNATIVES

- Respondents were interviewed for their attitudes toward alternatives to their current processing service in three areas:
 - Intentions to shift services in-house.
 - Factors, if any, that would induce them to change processing vendors.
 - Knowledge and evaluation of other payroll processing vendors.
- Although nearly half (48%) of the middle market respondents had considered going in-house, only 20% reported any intentions to do so in the next one to two years, as shown in Exhibit IV-10. INPUT believes that less than 10% will actually do so. Similar results apply to small company respondents.
- The middle market for payroll processing services shows little impact from turnkey systems.

EXHIBIT IV-8

PAYROLL COST, AS REPORTED
BY SMALL COMPANY RESPONDENTS

VENDOR	AVERAGE EMPLOYEES	AVERAGE PAY PERIODS PER MONTH	AVERAGE COST PER EMPLOYEE PER PAYROLL	AVERAGE LOCATIONS FOR SEPARATE HANDLING
SECURITY PACIFIC NATIONAL BANK	25	2.5	\$2.50	1.0
OTHERS	68	2.8	1.10	1.5
OVERALL	53	2.7	\$1.20	1.2

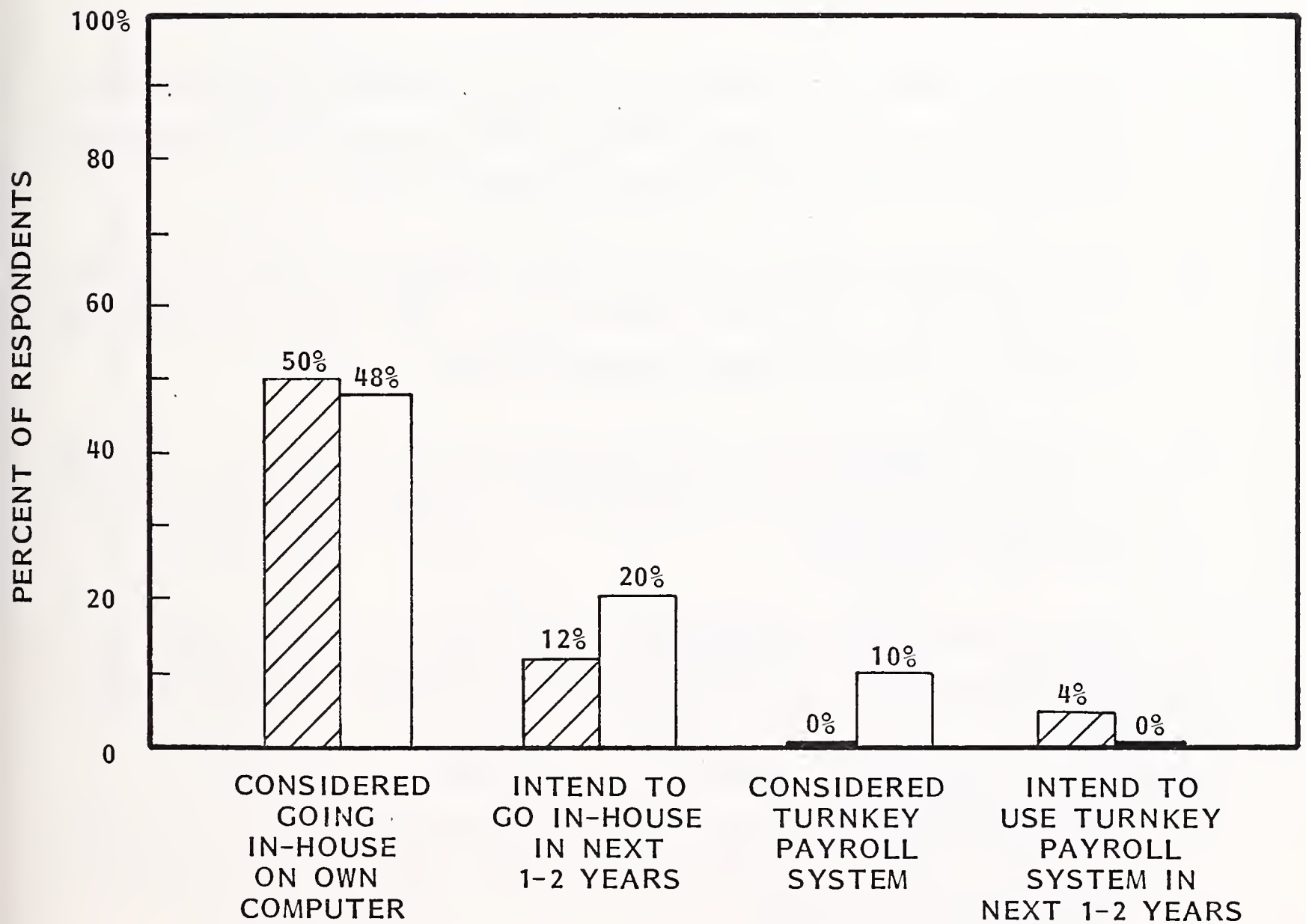
EXHIBIT IV-9

RESPONDENTS' PERCEPTIONS OF
PRICE OF PAYROLL SERVICES

PERCEPTION OF VENDORS' PRICING	SMALL COMPANIES	MIDDLE MARKET COMPANIES
HIGH	-	18%
ABOUT RIGHT	90%	72
LOW	-	2
UNCERTAIN	10	8

EXHIBIT IV-10

PAYROLL PROCESSING ALTERNATIVES, AS REPORTED
BY PAYROLL SERVICES RESPONDENTS

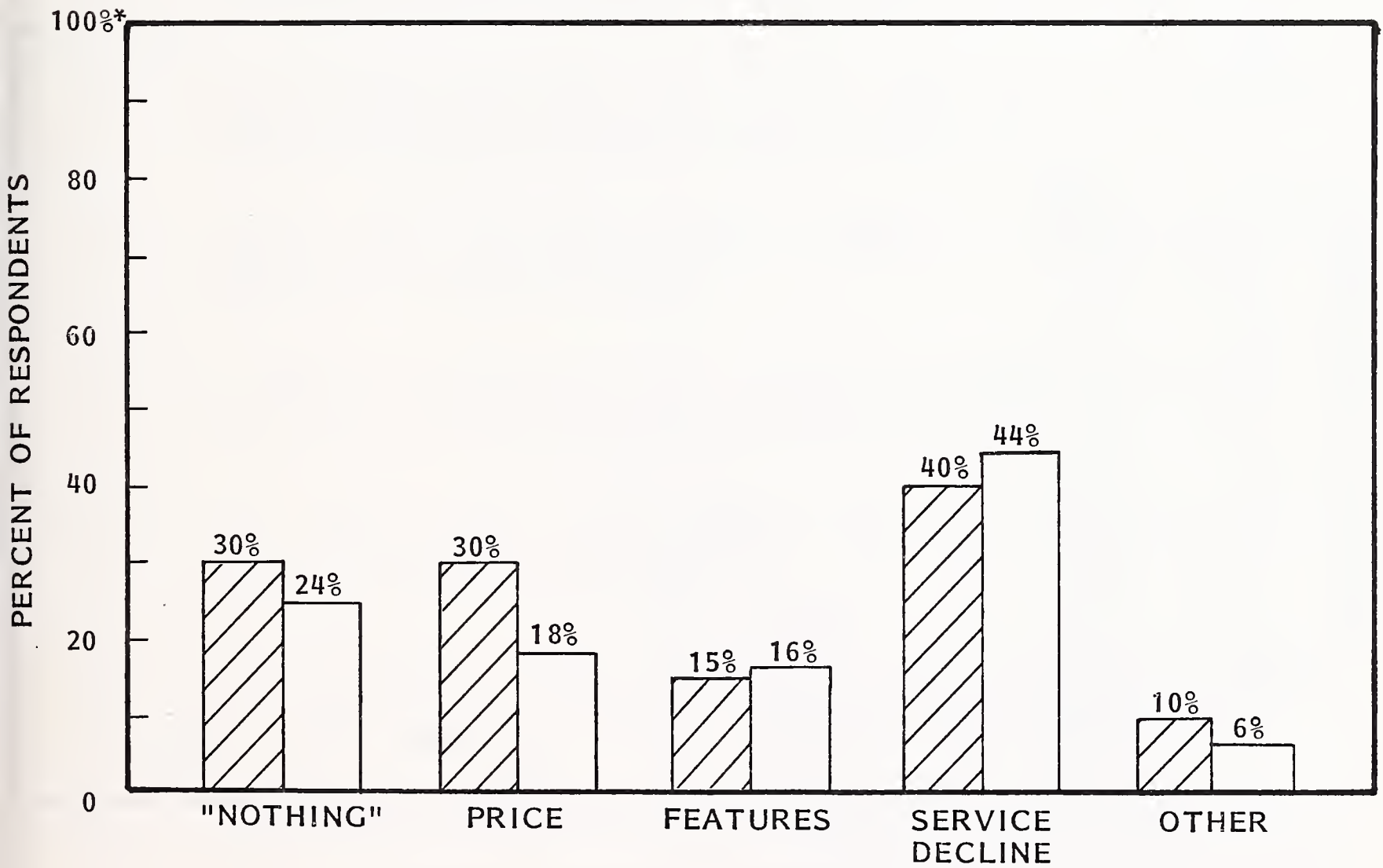


 SMALL COMPANIES
 MIDDLE MARKET COMPANIES

- Although the direct impact of turnkey systems on payroll processing services to such companies is small, the market will be impacted indirectly, and to a larger extent, by small business systems offering turnkey solutions to general business applications, including accounts receivable, accounts payable, general ledger and payroll.
- A decline in services, timeliness and accuracy was the major reason cited by both middle market and small company respondents that would induce them to change services, as shown in Exhibit IV-11.
- One-fourth (25%) of all respondents could not envision anything that would induce them to change vendors. Some of these respondents felt that, as long as the payroll worked, they had more important priorities.
- Three respondents who felt that price was a consideration, and who were able to quantify "how much," felt that at least a 20% price differential was necessary to consider the effort to change vendors.
- A number of respondents who had changed vendors at one time or another commented that in the future they would only consider changing vendors just after year end, if at all.
- Several respondents commented that their company's changing banks would induce them to shift payroll services to "get a better commercial lending deal."
- Respondents were by and large unfamiliar with the processing services offered by vendors other than their current one. This was particularly true for the small company marketplace.
- As shown in Exhibit IV-12, nearly 80% of the small company respondents were only familiar with their own payroll services vendor, whereas 90% of middle market companies were familiar with at most one other vendor.

EXHIBIT IV-11

FACTORS THAT WOULD INDUCE RESPONDENTS TO
CHANGE PAYROLL SERVICES VENDORS

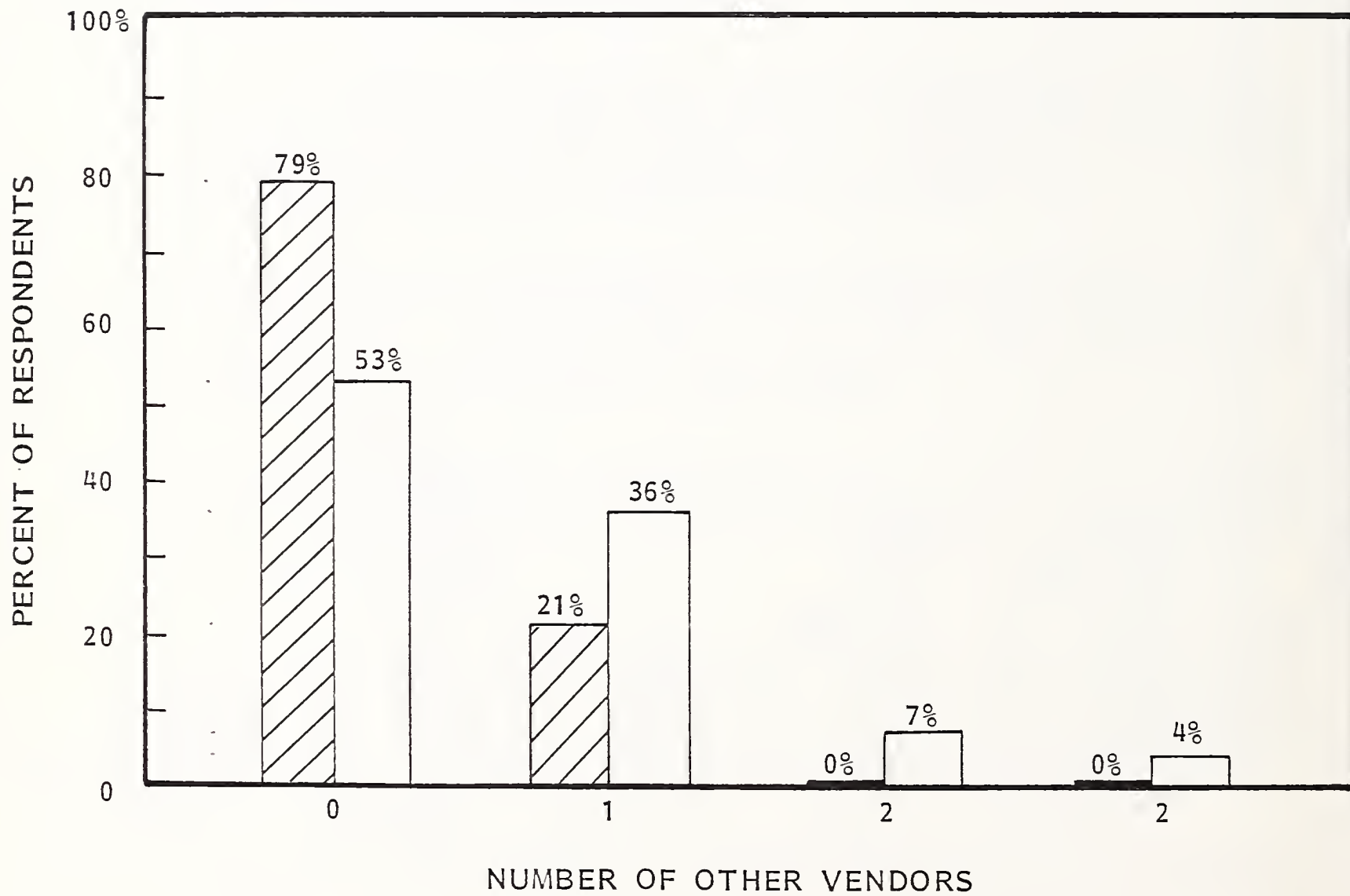


 SMALL COMPANIES
 MIDDLE MARKET COMPANIES

*MULTIPLE RESPONSES POSSIBLE

EXHIBIT IV-12

FAMILIARITY WITH OTHER PAYROLL SERVICES VENDORS,
AS REPORTED BY RESPONDENTS



-  SMALL COMPANIES
 MIDDLE MARKET COMPANIES

- The data suggest that a combination of increased marketing effort, product innovation and quality service is necessary to alter market share of payroll processing services in both middle and small company markets.

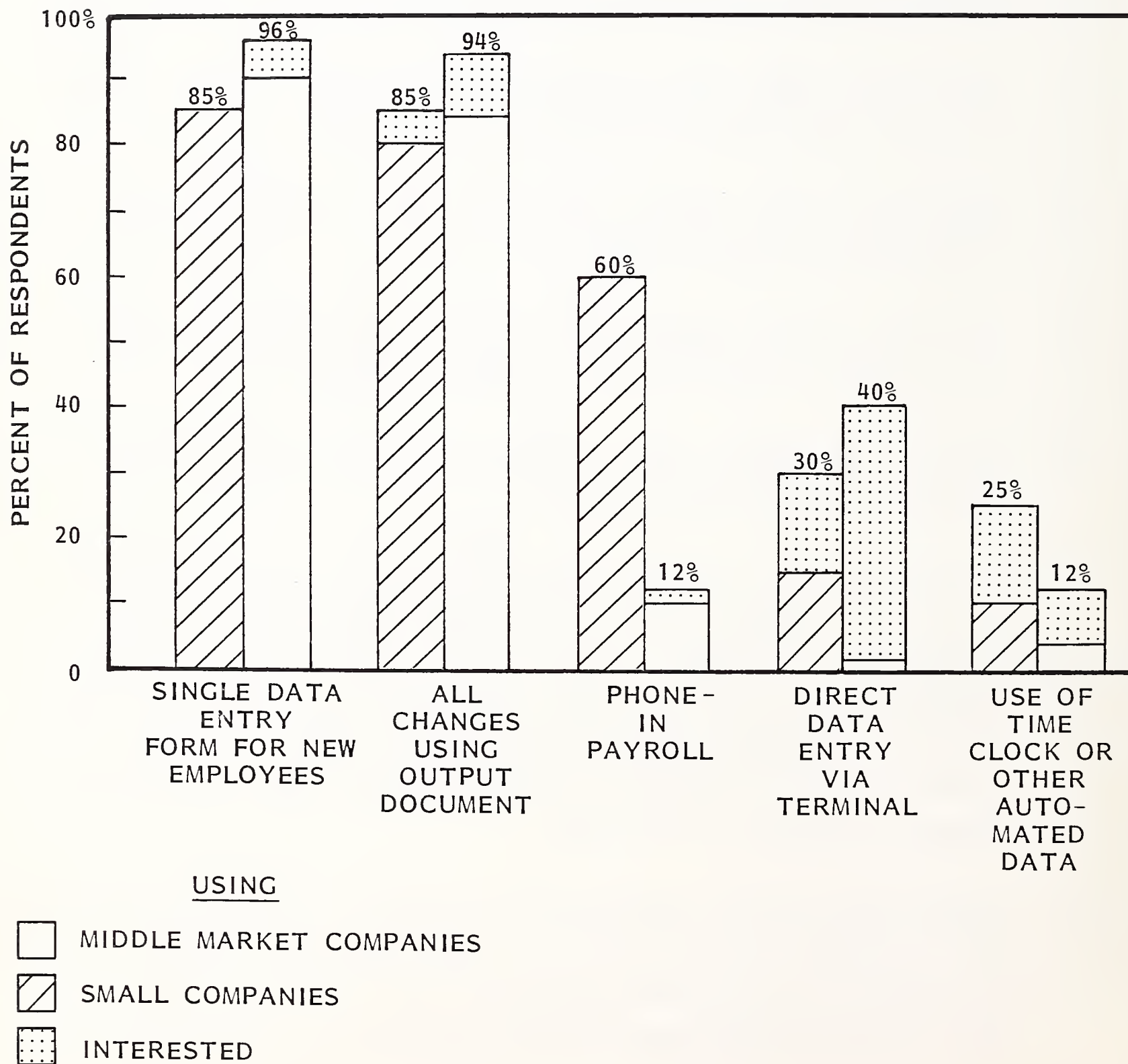
5. PRODUCT ANALYSIS

a. Data Entry Requirements

- Respondents' attitudes toward data entry methods are shown in Exhibit IV-13.
- Clearly, both middle market small company users want a single form when using batch processing services for master file data entry.
- Similarly both user markets require the ability to make all changes by annotation on an output document.
- The ability to phone in payroll data, including hours and master file information, is useful to a majority of small company respondents.
- Some 12% of middle market companies now use, or would use, phone-in services, primarily for salaried payroll.
- There is significant interest on the part of middle market company respondents in CRT terminals for data entry and other payroll-related services.
- Interest on the part of small company respondents for direct data entry via a terminal was related to small keyboard entry or touch-tone telephone entry systems offered by Pay-Fone and (most recently) by Bank of America, as opposed to intelligent CRT terminals.
- Middle market company respondents had little interest in using time clock or other automated data as input to the payroll processing service. Most respondents felt that too many adjustments were needed to the time clock data. Some respondents stated that automated labor data were integrated into

EXHIBIT IV-13

RESPONDENTS' ATTITUDES TOWARD DATA ENTRY METHODS



their in-house job cost system and could possibly be transferred from their computer to that of the payroll processing vendor, either direct, or on diskette or tape cassette.

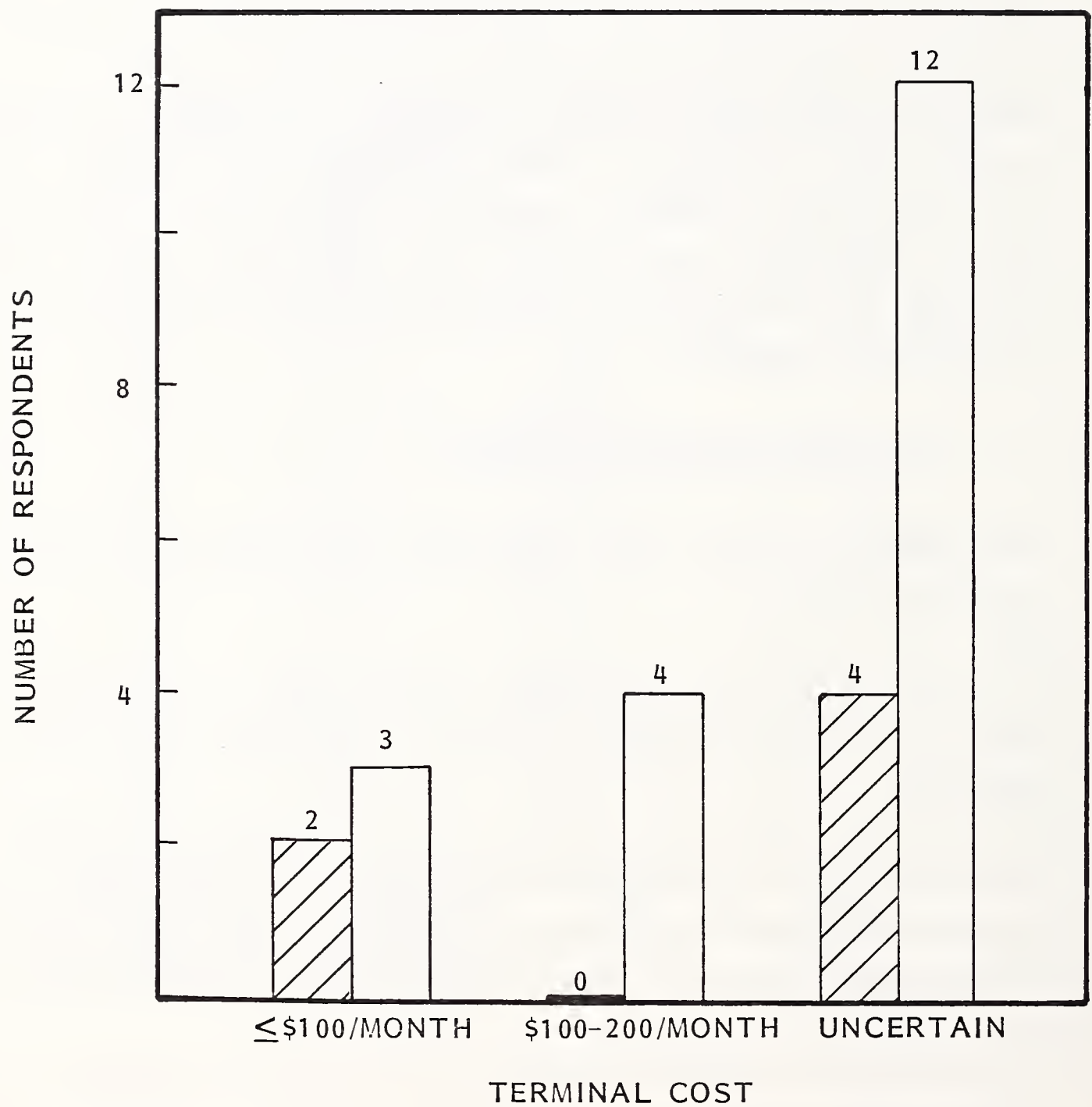
- What small company respondents meant by their interest in using time clock or other automated data was their need for the payroll vendor to supply time cards that could be used directly by employees to record hours. Payroll personnel would then verify the cards, eliminating transcription hours, etc.
- Based on the data shown in Exhibit IV-14, INPUT believes that middle market company users are unlikely to lease an intelligent CRT terminal just for payroll data entry and inquiry. However, a terminal leased in the neighborhood of \$100/month, tied to payroll and other services such as Human Resources, Cash Management and Funds Transfer, appears attractive to larger middle market companies.

b. Tax-Related Services Requirements

- Respondents' attitudes toward tax-related payroll services are shown in Exhibit IV-15.
- In California, automatic impounding and depositing of all California and federal payroll-related taxes is a given for both middle market and small companies.
- That half of all middle market companies use, or are interested in using, automatic tax impounding and filing for all states establishes a requirement for this service. The service could be offered as an option to small companies.
- Filing California and federal tax returns through power of attorney is popular for both middle market and small companies.

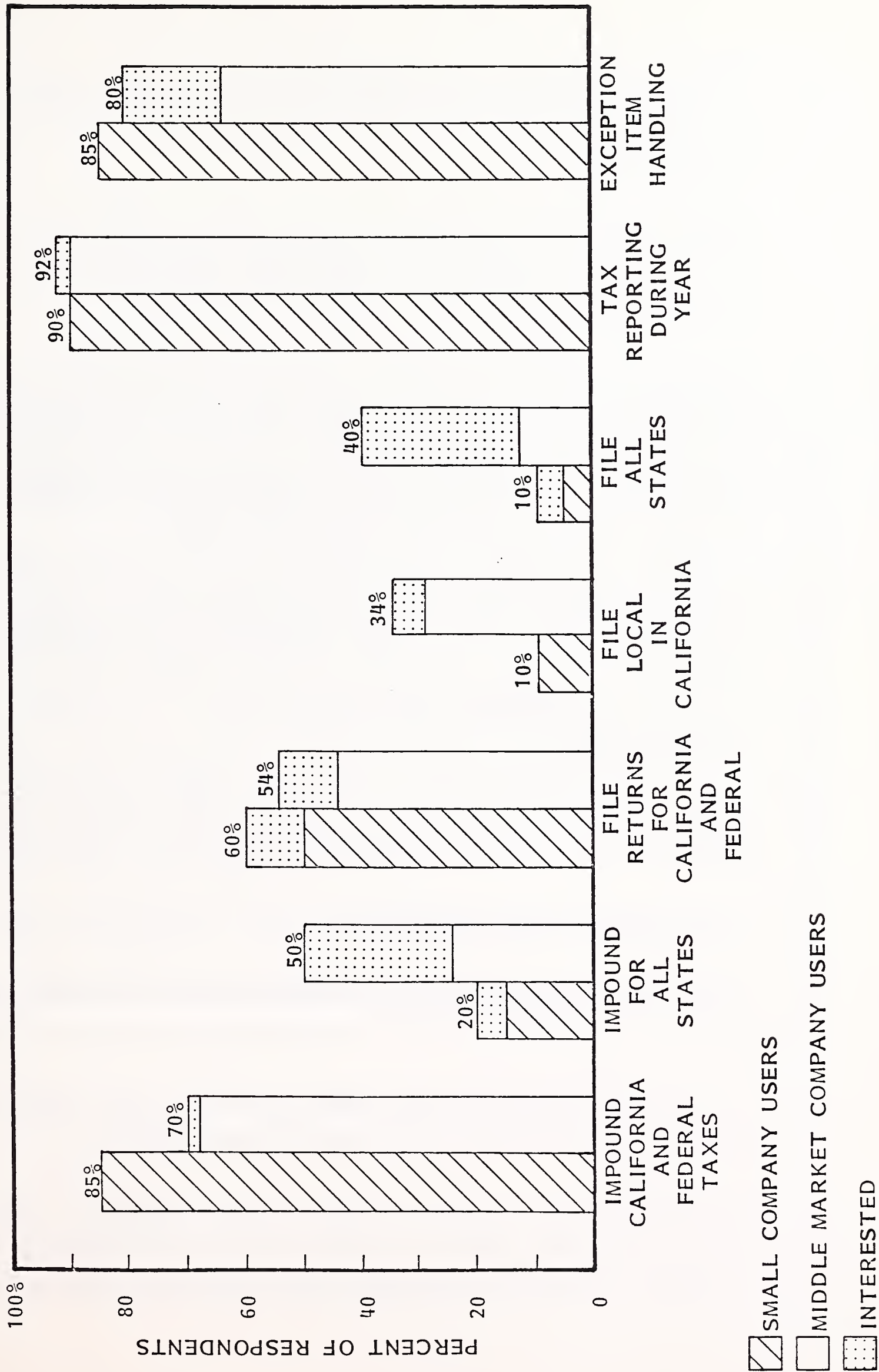
EXHIBIT IV-14

PRICE RESPONDENTS ARE WILLING TO PAY FOR
DIRECT PAYROLL DATA ENTRY TERMINAL



-  SMALL COMPANIES
 MIDDLE MARKET COMPANIES

RESPONDENTS USING, OR INTERESTED IN USING, TAX-RELATED PAYROLL SERVICES



- Nearly 30% of middle market respondents (primarily larger companies) file tax returns for local jurisdictions, establishing this as a requirement for the middle market segment.
- Middle market companies showed significant interest (40%) in giving power of attorney to the payroll services vendor to file all payroll-related tax returns in all jurisdictions.
- Although the major portion (90%) of both middle market and small companies had the ability to obtain W-2s and other tax reporting information other than at year end, most indicated that they did not use this information. The information is needed primarily by companies merging or dissolving. Such companies were not encountered in the survey sample.
- The major portion (at least 80%) of both middle market and small companies used, but struggled with, exception item handling, such as handling tax on commissions, vacations and bonuses. Most respondents felt that exception item handling was adequate but cumbersome and took a good deal of time to "learn the ropes."
- Typical respondents' comments on exception item handling are shown in Exhibit IV-16.

c. Turnaround Time Requirements

- Respondents' attitudes toward payroll turnaround time are shown in Exhibit IV-17.
- To a small portion (10%) of both middle market and small companies, payroll turnaround times of three or more days is perfectly adequate.
- The major portion of middle market companies (58%) are using, or are interested in having, 48-hour turnaround. However, over half (32%) are using, or would be interested in using (20%), 24-hour turnaround. Reasons cited range

EXHIBIT IV-16

TYPICAL RESPONDENTS' COMMENTS ON
EXCEPTION PAYROLL ITEM HANDLING

"Use it, but we have to do a lot of figuring out - would be nice if it were more automated."

"Doesn't do everything we want but we can get by - the main job is to get the payroll out on time, accurately."

"Something I can request, but I don't use it very often. I use manual checks instead."

"We use them, but we have to do a lot manually."

"B/A is the only vendor that can handle garnishments by creating two checks. The other vendors will need this to do child support."

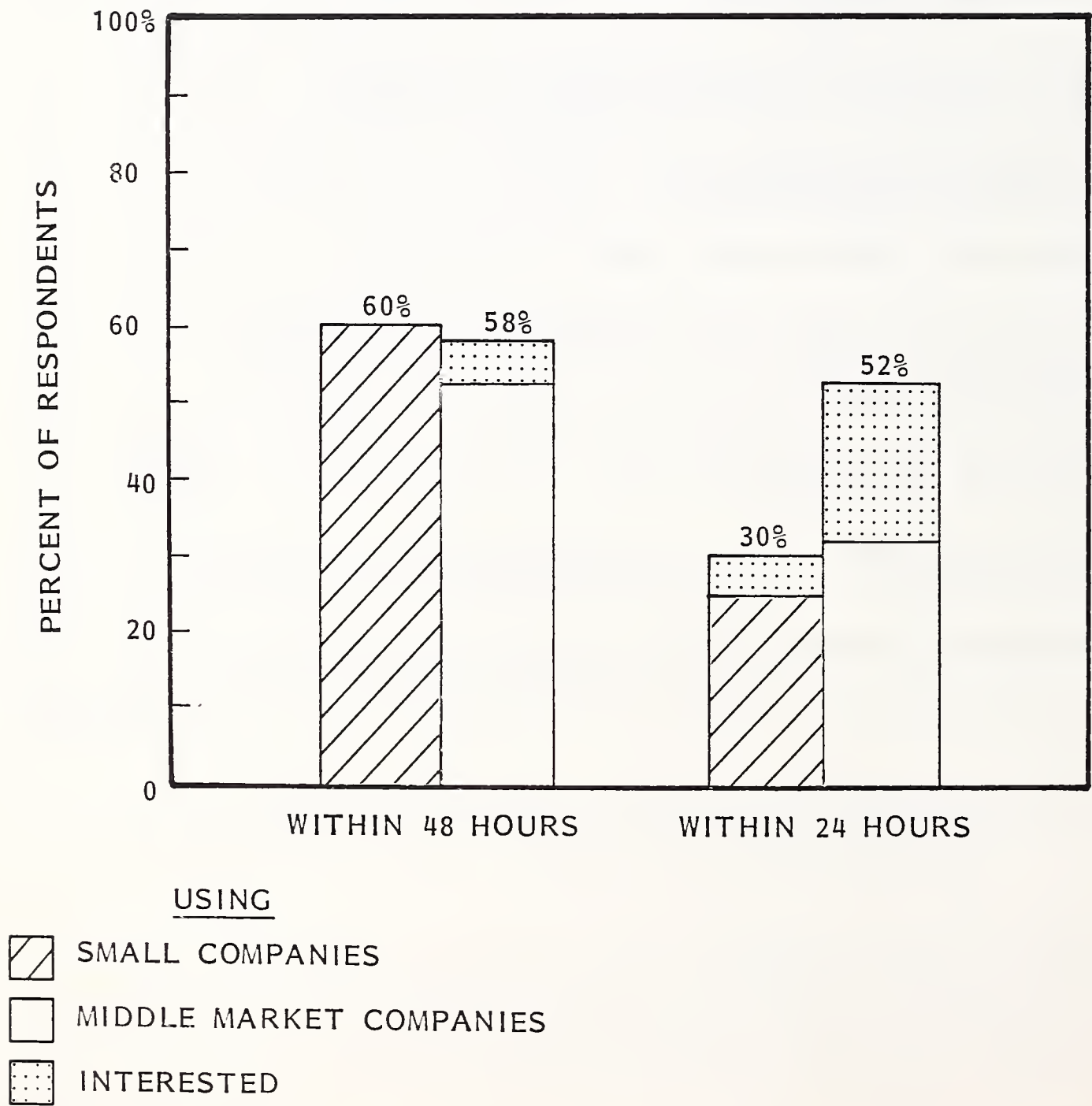
"They deduct standard 20% amount on vacations, etc. - would like to see done right."

"Tried it but doesn't work well. Do exceptions ourselves with manual checks."

"Actually we do most of it with accounts payable checks."

EXHIBIT IV-17

RESPONDENTS' REQUIREMENTS FOR
PAYROLL TURNAROUND TIME



from union requirements in the construction trades, to the slowness of the U.S. mail in reaching out-of-state employees.

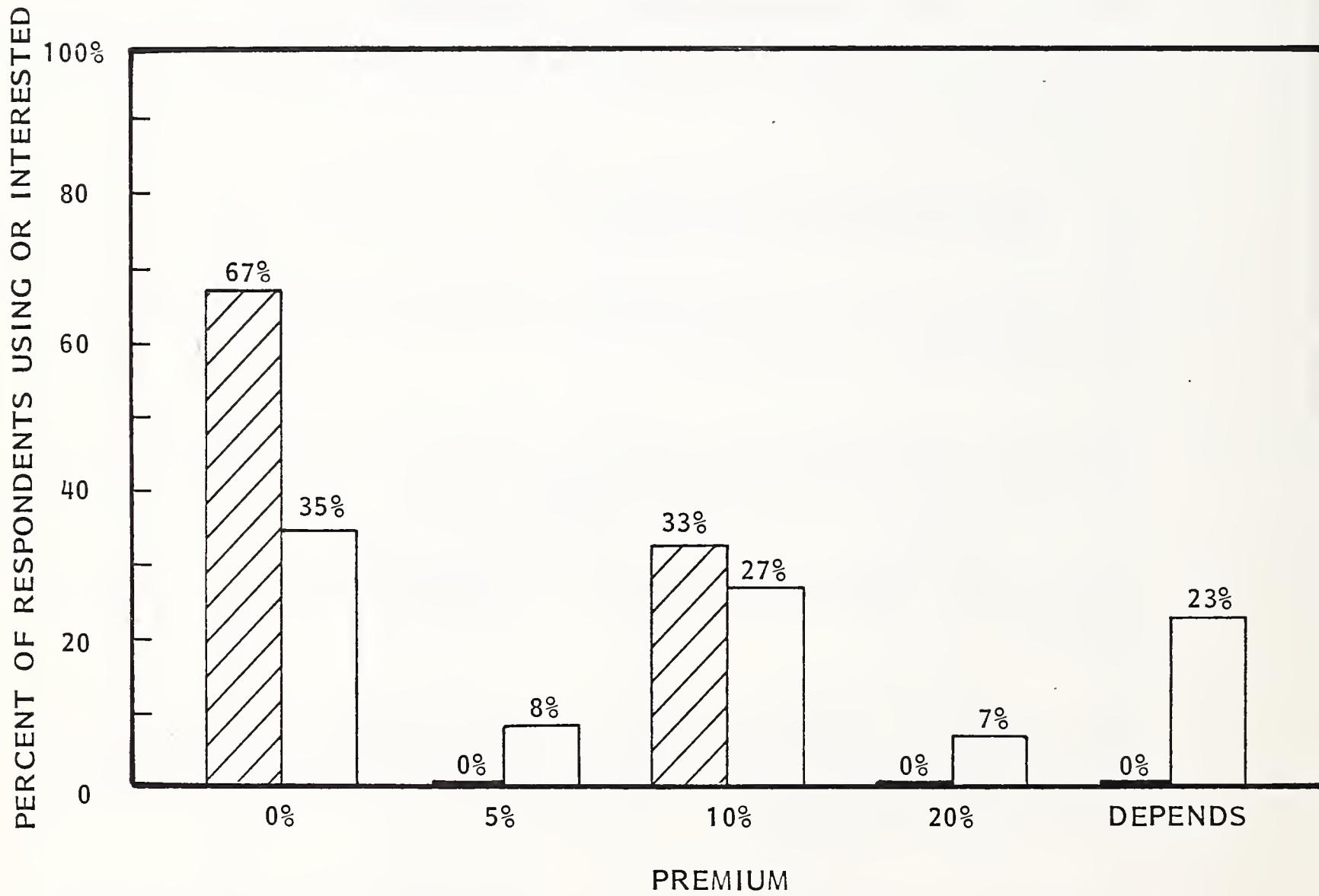
- Small company respondents are less willing to pay for 24-hour turnaround than are middle market companies, as shown in Exhibit IV-18. Their unwillingness results from both less perceived need and the fact that the cost is bundled in the minimum service costs of some current processing services vendors.
- INPUT concludes that 24-hour turnaround time should be offered as an option, priced at a 10% premium for middle market companies, and tied to data entry via intelligent terminal.

d. Labor Distribution Requirements

- Both middle market and small company respondents want labor distribution services, as shown in Exhibit IV-19.
- Respondents' attitudes toward using labor distribution services on an industry-by-industry basis are shown in Exhibit IV-20.
- Offering labor distribution services to California companies is clearly required.
- Small companies have basic labor distribution requirements consisting of distributions for department, job category and perhaps one other variable such as store or division, as shown in Exhibit IV-21.
- A significant portion (74%) of middle market respondents had more sophisticated labor distribution interests, such as tracking to budget or cost allocations, above labor-related items.
- There is sufficient interest among middle market respondents for having the payroll processing vendor offer a comprehensive labor accounting service.

EXHIBIT IV-18

PREMIUM RESPONDENTS ARE WILLING TO PAY
FOR TWENTY-FOUR HOUR PAYROLL TURNAROUND



-  SMALL COMPANIES
-  MIDDLE MARKET COMPANIES

EXHIBIT IV-19

RESPONDENTS' ATTITUDES TOWARD USING
PAYROLL LABOR DISTRIBUTION SERVICES

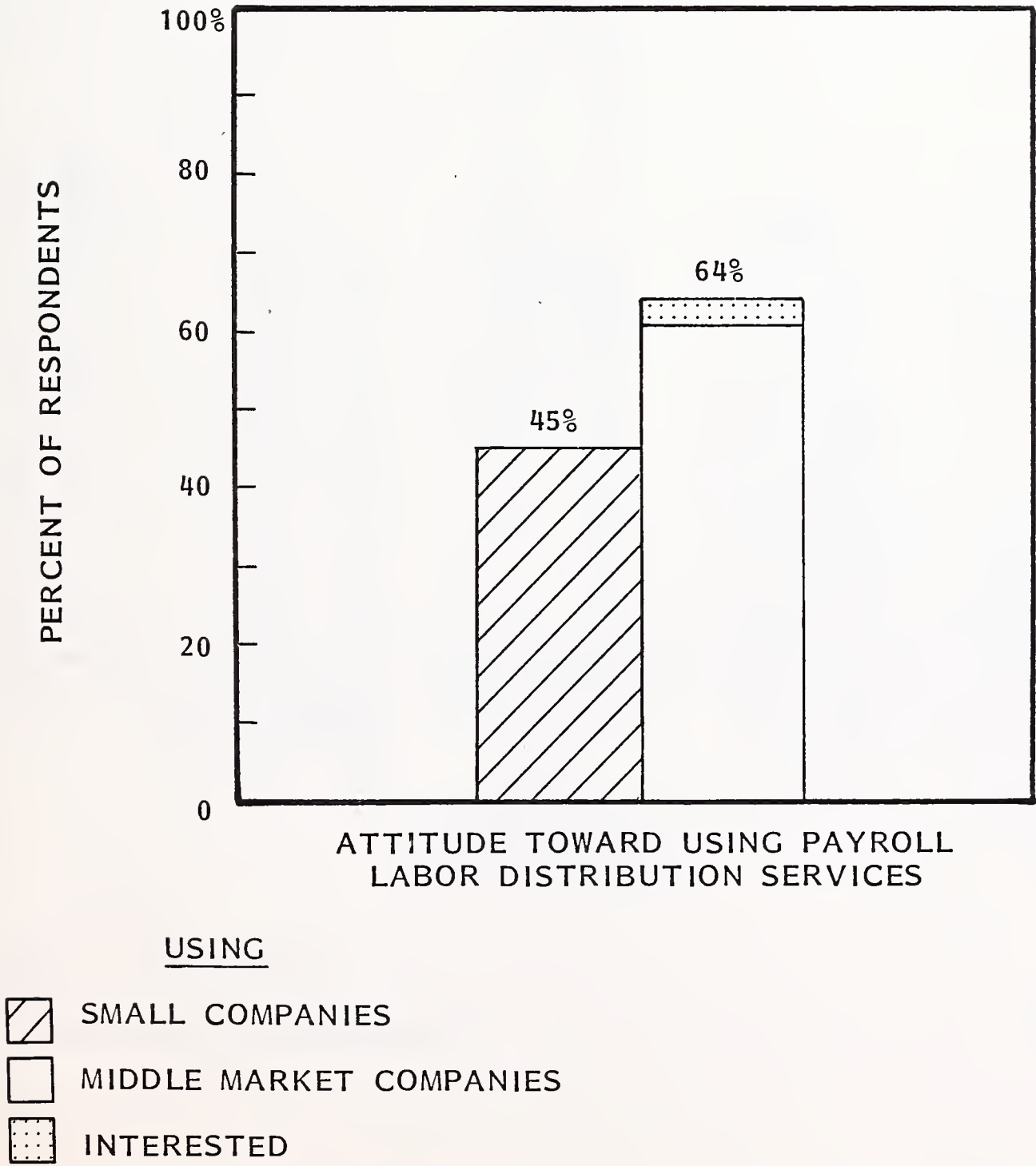


EXHIBIT IV-20

MIDDLE MARKET COMPANY RESPONDENTS
USING, OR INTERESTED IN, PAYROLL LABOR
DISTRIBUTION SERVICES, BY INDUSTRY SECTOR

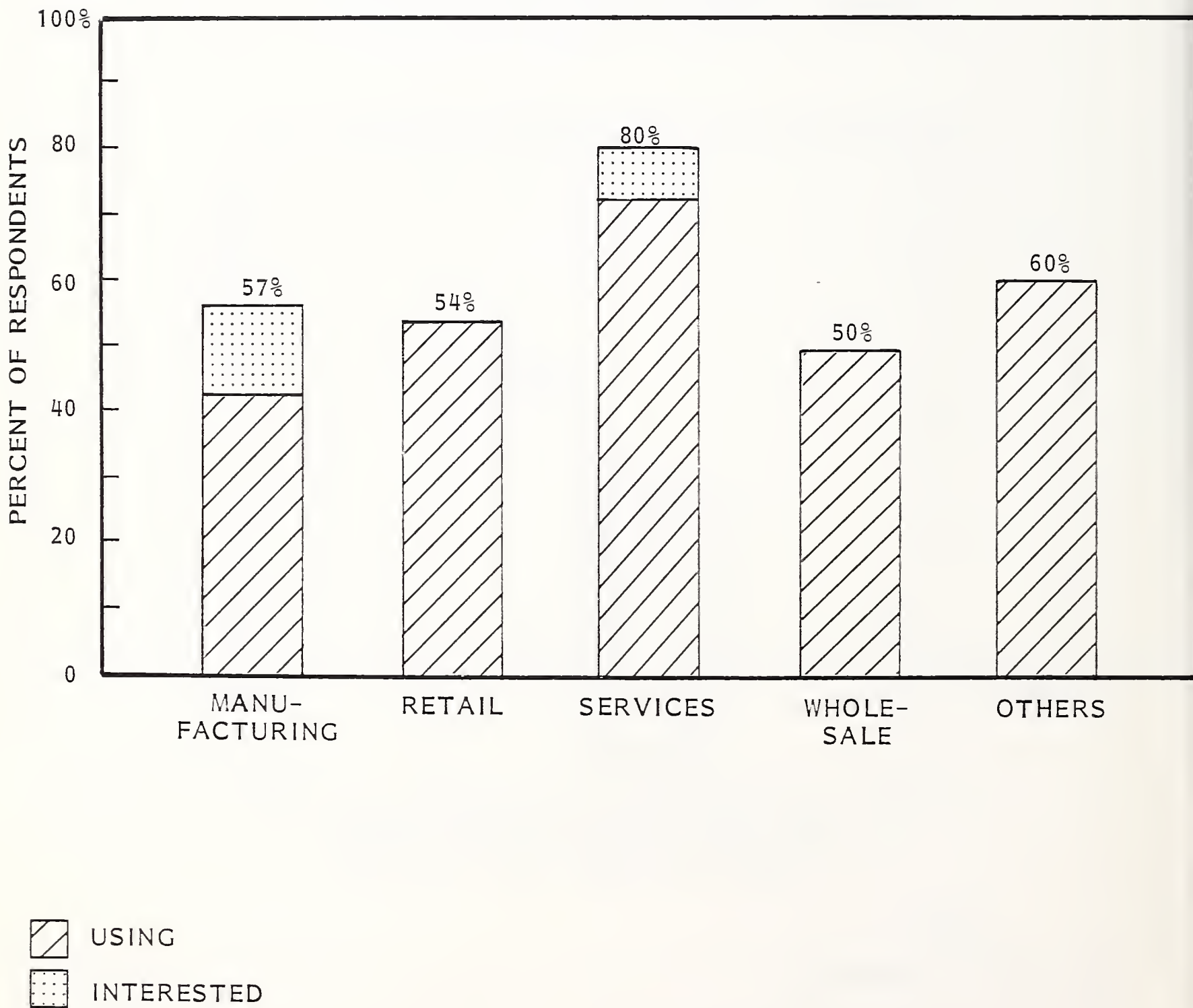
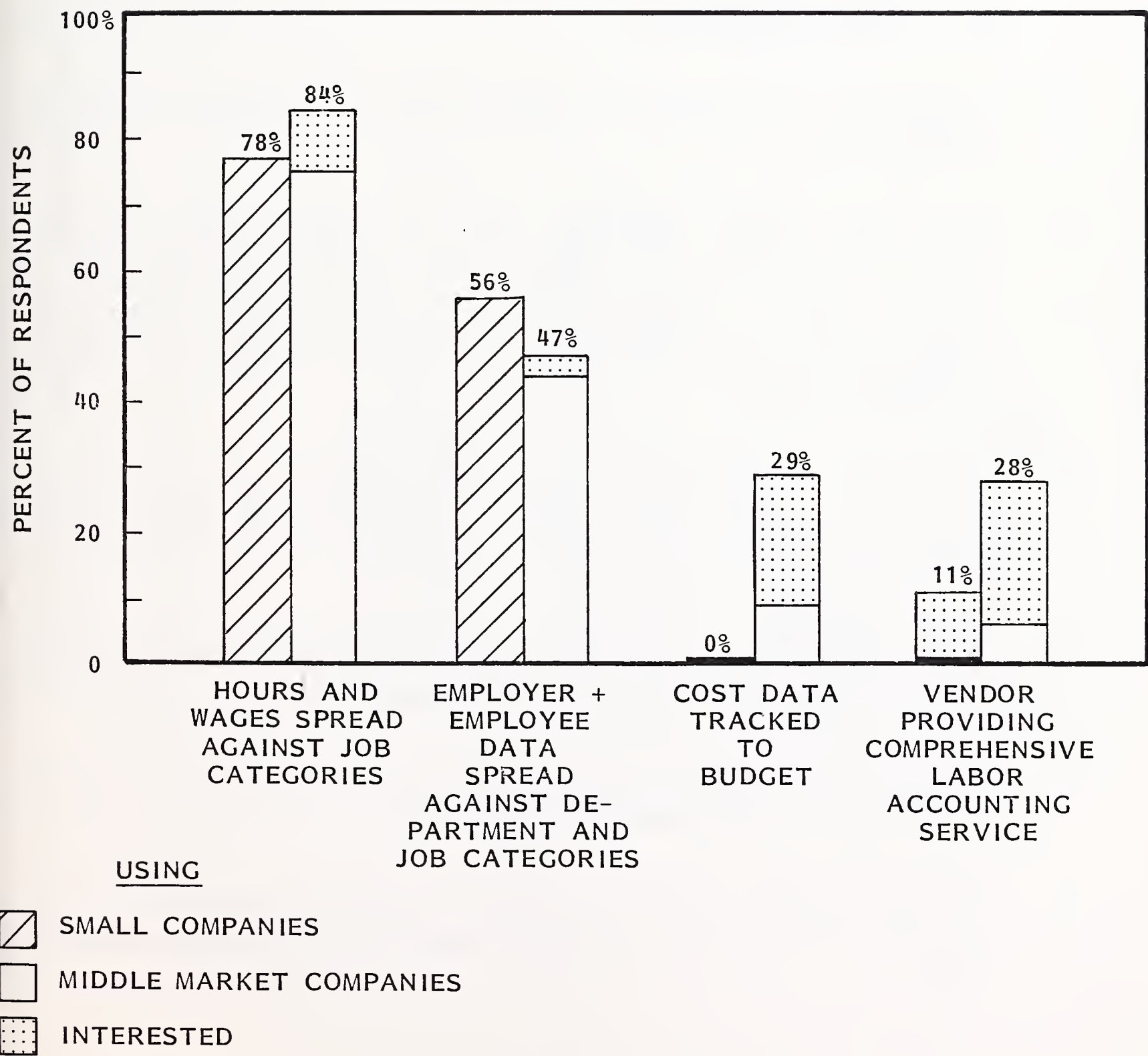


EXHIBIT IV-21

REQUIREMENTS FOR RESPONDENTS'
PAYROLL LABOR DISTRIBUTION



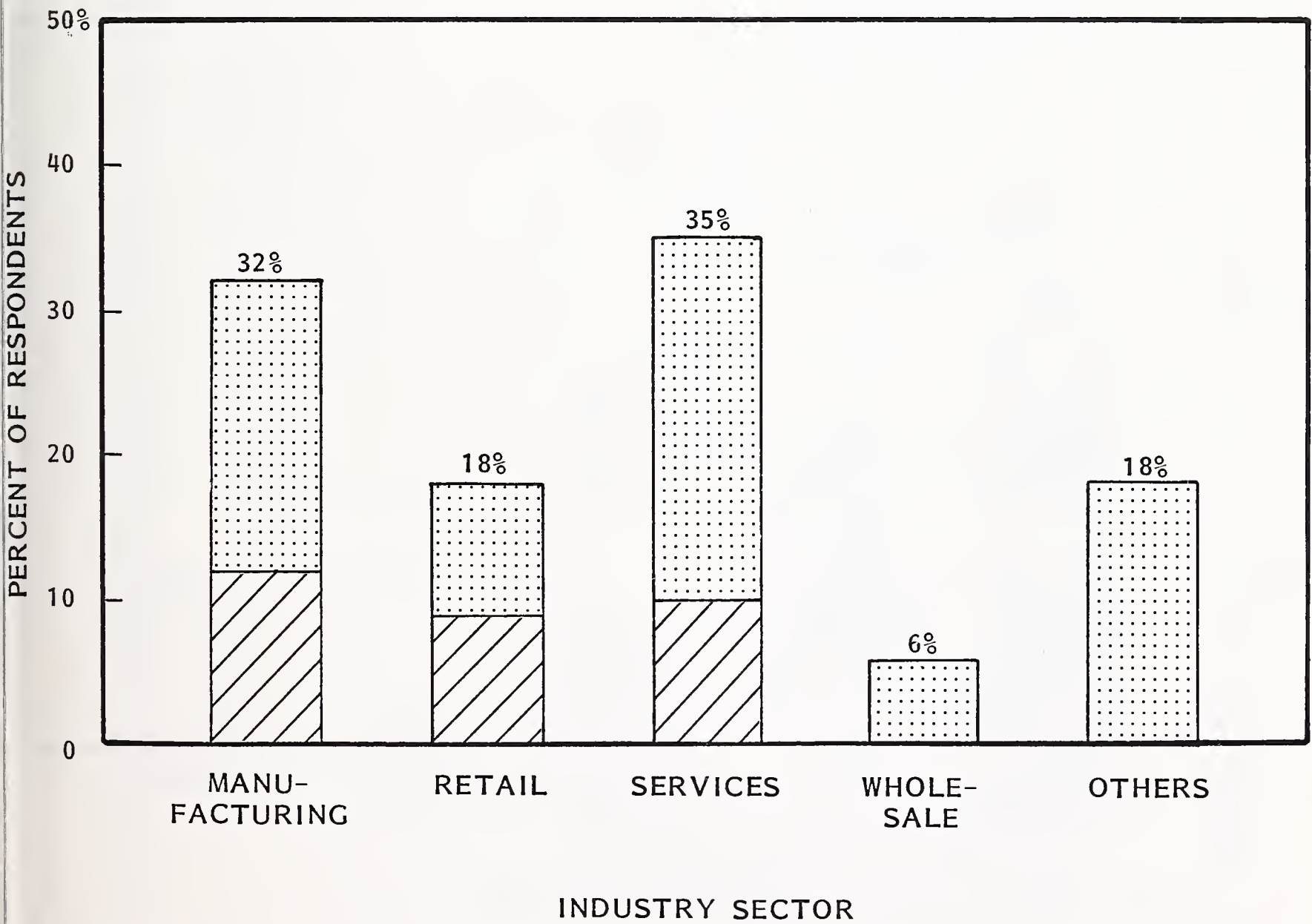
- The analysis of respondents across industry sectors shown in Exhibit IV-22, indicates that the middle market companies in the manufacturing and services sectors are the best targets for future payroll labor distribution service offerings.
- In testing the market for a comprehensive labor accounting service by industry sector, Exhibit IV-23 indicates that the services sector has the greatest need for payroll services vendor support.

e. Report Requirements

- Respondents' requirements for a number of issues on reporting are shown in Exhibit IV-24.
- More middle market respondents would use vacation/sick pay reporting services if the services delivered were on an individual, rather than just a summary, basis. Respondents wanted sick pay/vacation accrual/taken information to appear either on the payroll stub or on a report form stuffed in the payroll envelope.
- Vacation/sick pay reporting could be an optional feature for small companies, but it is a requirement for an advanced payroll system for larger, middle market companies.
- Typical comments on vacation/sick pay reporting requirements by middle market company respondents are shown in Exhibit IV-25.
- Had the interview profile included personnel executives, respondent interest in personnel/human resources services may well have been significantly greater.
- High small company use (55%) of workman's compensation reporting is related to services offered to small companies by accounting firms specializing in this area.

EXHIBIT IV-22

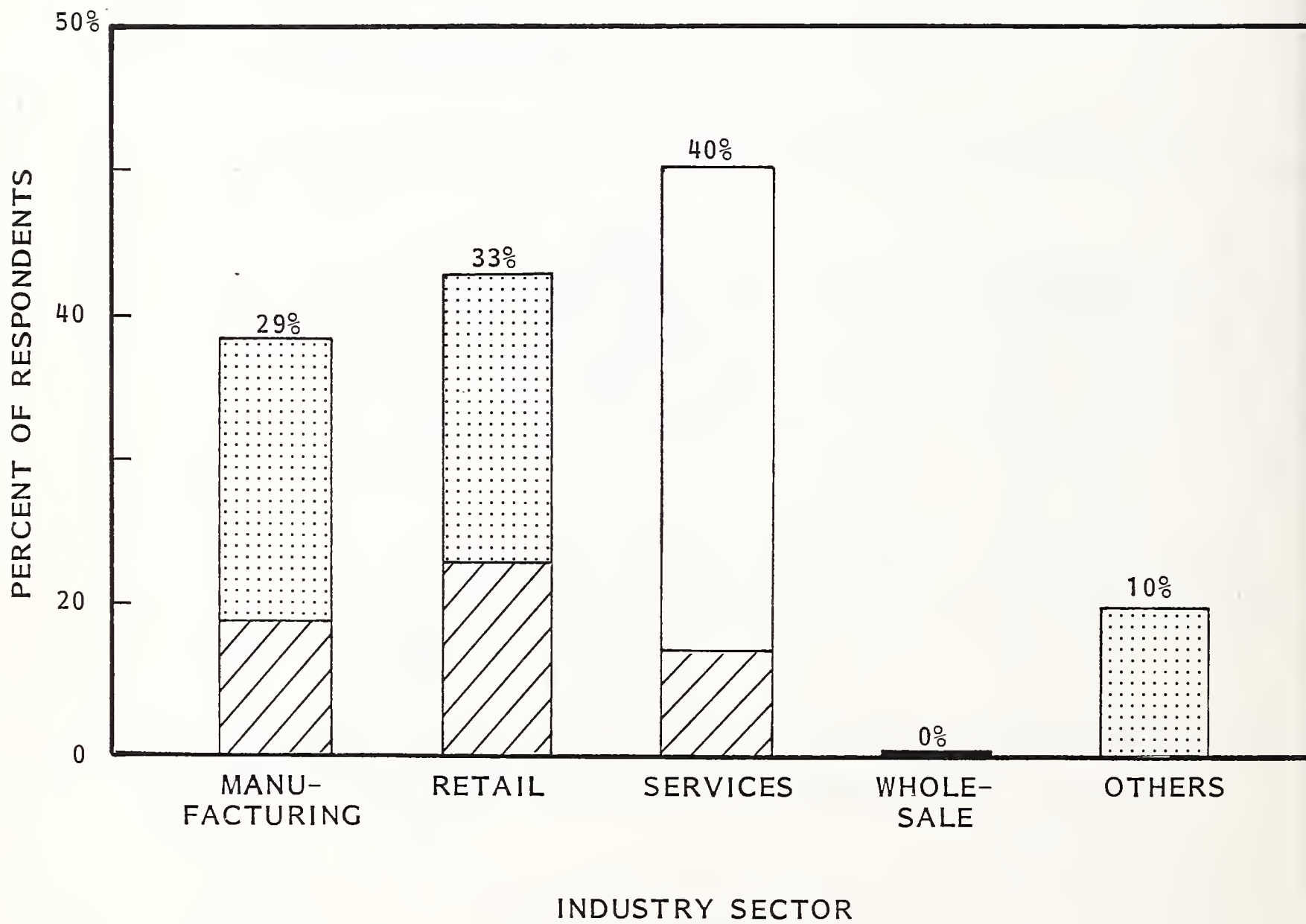
MIDDLE MARKET COMPANY RESPONDENTS' INTEREST
IN USING SOPHISTICATED, PAYROLL, VENDOR-PROVIDED
LABOR DISTRIBUTION SYSTEM, BY INDUSTRY SECTOR



 USING
 INTERESTED

EXHIBIT IV-23

MIDDLE MARKET COMPANY RESPONDENTS' INTEREST
IN USING PAYROLL VENDOR-PROVIDED
COMPREHENSIVE LABOR ACCOUNTING SOURCE



 USING
 INTERESTED

PAYROLL REPORTING REQUIREMENTS, AS REPORTED BY RESPONDENTS

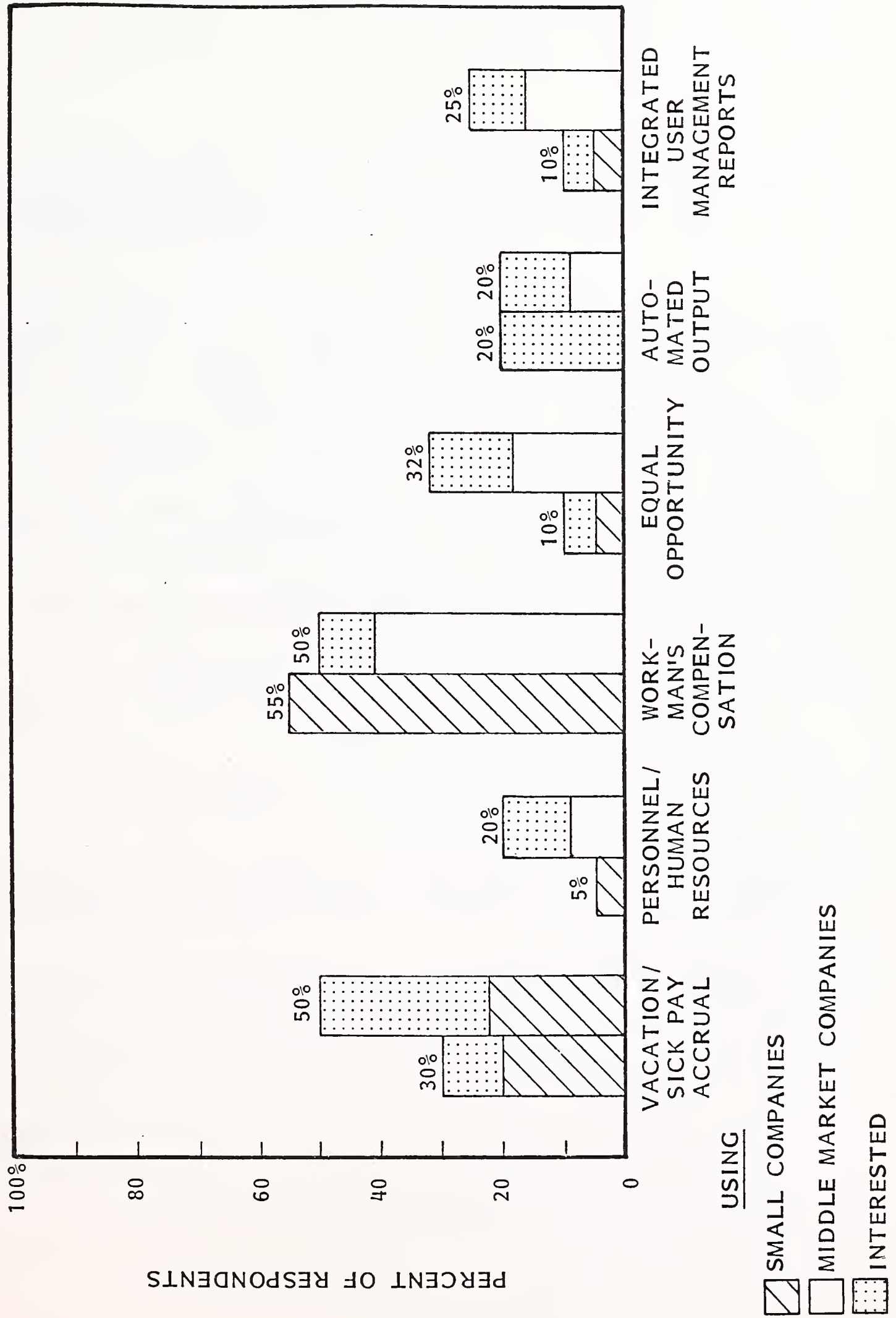


EXHIBIT IV-25

TYPICAL COMMENTS BY MIDDLE MARKET COMPANY RESPONDENTS
ON VACATION/SICK PAY REPORTING REQUIREMENTS

"We have to rig it to make it come out right."

"We do it using our own in-house personnel system."

"We have to convert summary reports to individual handouts."

"The system doesn't handle the union's requirements."

"Done manually at present. Would be interested if could be produced for individual handout."

"All people belong to a union which handles this."

"We get by on what we get but still have to keep individual records ourselves."

"Do vacation/sick pay in-house - would like on pay check stubs if possible."

"Would like accrual plus history on paycheck or on separate handout."

"We receive custom reports on vacation accrual and pension report for union."

"We'd use it if it would work. We tried it for awhile."

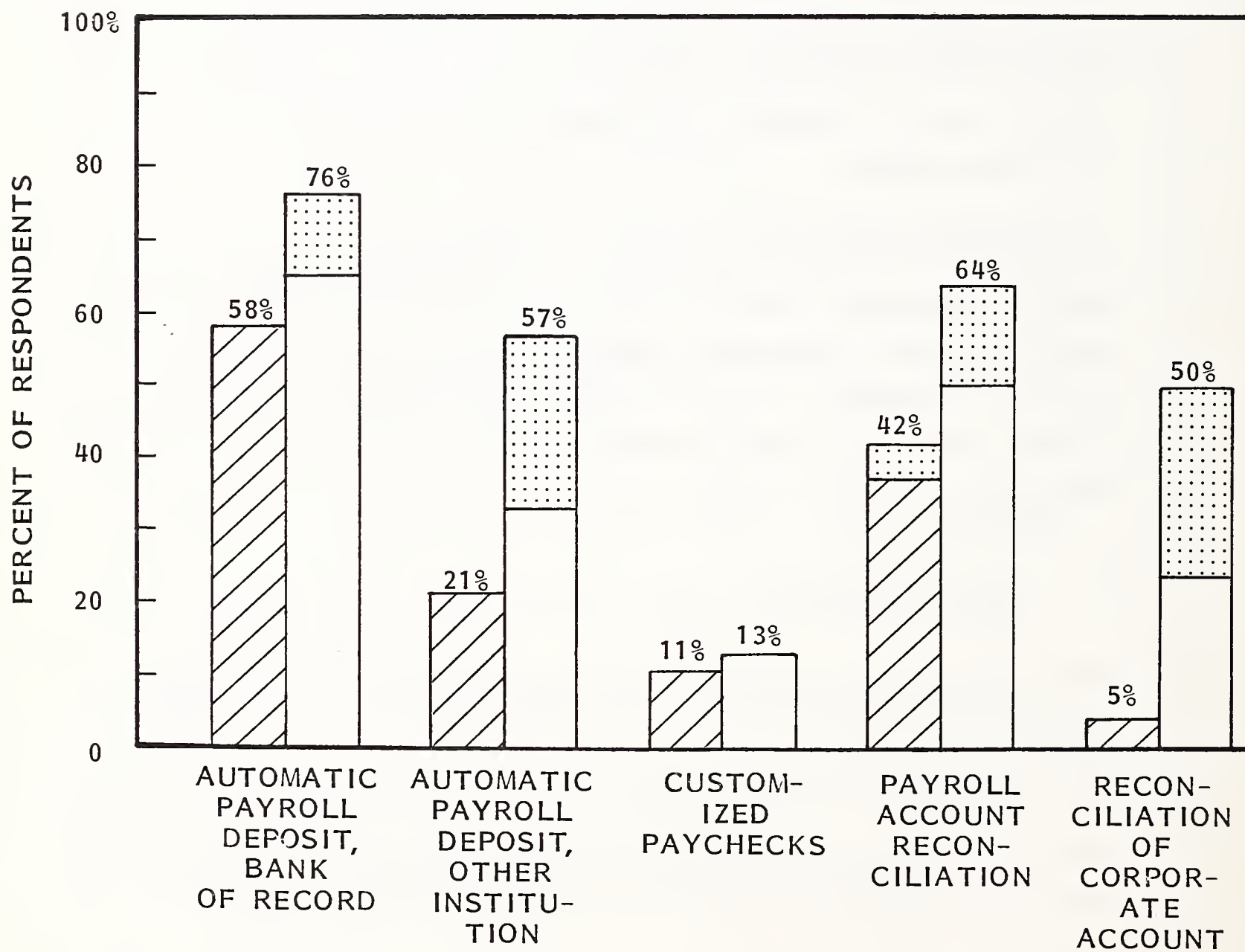
- There is an opportunity for payroll processing services vendors to offer workman's compensation-related services to both middle market and to small companies on an optional basis.
- The combined equal opportunity, workman's compensation and benefits reporting requirements sum to a human resources/personnel component of a future offering to middle market companies.
- Receiving automated output was not on the high-priority list for either small or middle market company respondents. In a future system offering to larger middle market companies, automated transfer of information to payroll customers could be offered on an optional basis tied to comprehensive cost accounting services.
- Except in specialized instances such as the "CARS" offering to automobile dealers, respondents were not attracted to the concept of the payroll processing vendor's providing reports integrated with the corporate MIS system. The concept, of little interest to small company respondents, would be better addressed to corporate planning executives in larger, middle market companies.

f. Other Requirements

- The major portion of middle market and small company respondents used automatic payroll deposit at the bank of record, as shown in Exhibit IV-26.
- Use of automatic payroll deposit at other depository institutions, including savings and loans and out-of-state banks through automated clearing house (ACH) electronic funds transfer, was less widely used than expected.
- Respondents felt that the set-up and per-payroll charges were in some instances too high, and that, at times, the automatic deposits were made two to three days late. Some respondents felt their processing vendors discouraged its use.

EXHIBIT IV-26

OTHER PAYROLL SERVICES
REPORTED BY RESPONDENTS



USING

-  SMALL COMPANIES
-  MIDDLE MARKET COMPANIES
-  INTERESTED

- INPUT believes that rising paper check-handling costs exceed or will soon exceed lost float value, plus falling electronic funds transfer costs. Offering automatic payroll deposit at other institutions should be marketed to middle market companies.
- Typical comments on automatic payroll deposit by middle market respondents are shown in Exhibit IV-27.
- Customized checks are of minor interest to both middle market and small company respondents.
- Automated payroll account reconciliation is a necessary feature for bank-issued payroll checks. Middle market company respondents using non-bank payroll services are interested in automated payroll check reconciliation, rarely and poorly provided by commercial processing vendors.
- Although half of middle market company respondents used, or were interested in using, automated reconciliation services for their corporate accounts, INPUT did not detect any connection in the respondents' minds between the corporate and the payroll account. Most middle market respondents were not involved with the corporate account, except to request manual checks. INPUT believes that the question would have been more appropriate to ask at the corporate VP, finance or treasurer level.

6. RELATED PRODUCTS AND SERVICES

- Some 25% of middle market companies use outside vendors for processing accounts receivable, accounts payable and general ledger, as shown in Exhibit IV-28. Although less than 20% of respondents using these services obtained them from the payroll processing vendor, INPUT believes that the tie-in is greater for commercial payroll services vendors such as ADP and SBC, who target existing customers for additional services.

EXHIBIT IV-27

TYPICAL COMMENTS BY MIDDLE MARKET COMPANY RESPONDENTS
ON AUTOMATIC PAYROLL DEPOSIT REQUIREMENTS

"We offer it to our employees only if they ask."

"To deposit in other banks takes too long - three days."

"We would be interested in automatic deposit to other institutions if the price were right."

"We'd like it but it hasn't been offered by our payroll services."

"We will have automatic deposit to other institutions when we go on our new payroll service."

"Automatic payroll deposit in our bank is cheap, but other banks charge twenty dollars per set-up and ten cents an item, which we feel is exorbitant."

"We are a service company. Most people like to cash their own payroll checks. Only forty or fifty use automatic deposits in our bank."

"Don't believe our vendor can provide this service."

"They charge for making deposits to other banks."

EXHIBIT IV-28

CURRENT USE OF OTHER OUTSIDE PAYROLL-RELATED SERVICES,
AS REPORTED BY RESPONDENTS

SERVICE	PERCENT OF RESPONDENTS		AVERAGE RATING*
	SMALL COMPANIES	MIDDLE MARKET COMPANIES	
ACCOUNTS RECEIVABLE	0%	17%	6.1
ACCOUNTS PAYABLE	0	22	7.1
GENERAL LEDGER	0	26	6.7
HUMAN RESOURCES	0	0	-
OTHER	0	4	7.5

* RATING SCALE: 1-10, WHERE 1 = LOW AND 10 = HIGH

- Small company respondents in the survey sample made no use of outside general accounting services.
- Neither middle market nor small company respondents intended to use outside services vendors for general accounting services, as shown in Exhibit IV-29. Middle market company respondents, if anything, intended to shift general accounting services to their in-house computers.
- INPUT tested the market for other financial services related to the company payroll account. Virtually all middle market and small company respondents saw little tie-in of cash management, lock box funding, payroll or concentration account funding payroll to the company payroll account. A number of middle market company respondents said that they used such services, but at the corporate level. INPUT believes that the questions would have been more appropriate to ask corporate vice presidents of finance or treasurers of middle market companies.

C. SPNB PRODUCT ANALYSIS

I. CURRENT PRODUCT OFFERING

- INPUT's assessment of SPNB's current payroll product offering, based on both user and vendor interviews, is shown in Exhibit IV-30.
 - a. Small Companies
 - Overall assessment of product offering to small companies is that the offering is feature competitive and, with some improvements, particularly in the areas of data entry and reporting, could remain so over the next several years.
 - The current method of manual data entry of payroll phone input takes too much time, is full of redundant information, and hence is not cost effective.

EXHIBIT IV-29

RESPONDENTS' INTENTIONS TOWARD FUTURE USE OF
OTHER OUTSIDE PAYROLL-RELATED SERVICES

SERVICE	PERCENT OF RESPONDENTS	
	SMALL COMPANIES	MIDDLE MARKET COMPANIES
ACCOUNTS RECEIVABLE	0%	4%
ACCOUNTS PAYABLE	0	4
GENERAL LEDGER	0	4
HUMAN RESOURCES	0	0
OTHER	0	2

EXHIBIT IV-30

EVALUATION OF SPNB'S PAYROLL
PROCESSING SERVICE, BY COMPANY SIZE

FEATURE	COMPANY SIZE		
	SMALL (REVENUES <\$5M)	MIDDLE MARKET	
		REVENUES \$5-20M	REVENUES \$20-150M
PAY BY PHONE			
- DATA ENTRY	MARGINAL	MARGINAL	NOT APPLICABLE
- CUSTOMER SERVICE	MARGINAL	MARGINAL	NOT APPLICABLE
BATCH DATA INPUT			
- MASTER FILE DATA	COMPETITIVE	MARGINAL	NON- COMPETITIVE
- HOURS AND JOB DATA	COMPETITIVE	MARGINAL	NON- COMPETITIVE
- DATA ENTRY	MARGINAL	MARGINAL	MARGINAL
TAX SERVICE			
- IMPOUND CALIFORNIA AND FEDERAL	COMPETITIVE	COMPETITIVE	COMPETITIVE
- IMPOUND ALL STATES	NOT APPLICABLE	NON- COMPETITIVE	NON- COMPETITIVE
- FILE CALIFORNIA AND FEDERAL	COMPETITIVE	COMPETITIVE	COMPETITIVE
- FILE ALL STATES	NOT APPLICABLE	NON- COMPETITIVE	NON- COMPETITIVE

EXHIBIT IV-30 (CONT.)

EVALUATION OF SPNB'S PAYROLL
PROCESSING SERVICE, BY COMPANY SIZE

FEATURE	COMPANY SIZE		
	SMALL (REVENUES <\$5M)	MIDDLE MARKET	
		REVENUES \$5-20M	REVENUES \$20-150M
LABOR DISTRIBUTION			
- BASIC LABOR DISTRIBUTION	COMPETITIVE	MARGINAL	NOT APPLICABLE
- COMPREHENSIVE LABOR DISTRIBUTION	NOT APPLICABLE	NON-COMPETITIVE	NON-COMPETITIVE
PERSONNEL REPORTING			
- WORKMAN'S COMPENSATION/EEOC	COMPETITIVE	MARGINAL	MARGINAL
- PENSION/UNION	COMPETITIVE	MARGINAL	NON-COMPETITIVE
- HUMAN RESOURCES	NOT APPLICABLE	NON-COMPETITIVE	NON-COMPETITIVE
CUSTOMIZED REPORTING			
- CAPABILITY	MARGINAL	MARGINAL	NON-COMPETITIVE
- RESPONSIVENESS	MARGINAL	NON-COMPETITIVE	NON-COMPETITIVE

- Reporting capability, marginal at best, will continue to deteriorate over time until data base techniques permit the use of a flexible report writer.
- Impounding and filing California and federal taxes satisfies the tax reporting requirements of most small companies (80%).
- Some improvement in basic labor distribution capabilities, such as department and division breakouts, would help, but are not strictly essential to marketing the product successfully to small companies.
- To the extent that small companies use personnel reporting, the current workman's compensation and personnel summaries will meet most small company user requirements in the near term.

b. Middle Market Companies

- While the current product offering is basically feature-competitive in the small company marketplace, it has an uncertain future among middle market companies.
- INPUT believes that, with some effort, the current product could limp along in the near term (1-2 years) for the lower end of middle market companies (revenues between \$5-20 million); but the overall product is not feature-competitive for the upper end of the market, a market that appears of primary interest to SPNB corporate banking.
- Smaller middle market companies use phone-in services for executive payrolls. Upgrading phone data entry is also essential for supporting this market segment.
- Master file limitations such as field size and number of deductions, while marginal, will suffice for a major portion of smaller, middle market companies.

- While payroll data, such as the number of preselected job numbers, are bothersome, they still meet the needs of most smaller, middle market companies.
- Few smaller, middle market companies have set up company production and distribution channels outside California, and hence require out-of-state tax impounding and filing.
- Although custom report writing is available with the current product, it is limited in capability and takes too long to respond to customer requests. Improvement in report writing capability for smaller, middle market companies would also permit some upgrade of service features in the areas of labor distribution and personnel reporting.
- INPUT's assessment of the current product is that it is non-competitive to larger middle market companies (revenues \$20-150 million).
- Major changes affecting master file content, employee labor input, tax filing, personnel reporting and inquiry reporting suggest that SPNB must consider redoing or replacing the payroll product to be competitive in offering payroll processing services to larger, middle market companies.

2. CURRENT PRODUCT IMPROVEMENTS

- INPUT's assessment of SPNB Planned Enhancements, as they apply to the current product offering, is shown in Exhibit IV-31.
- The number and estimated cost (over \$300 thousand for those estimated) of enhancements graphically illustrate the feature problems with the current product offering.
- Only four of twenty enhancements are of high importance to the small company market, whereas the major portion (70%) are essential to support upper middle market companies.

EXHIBIT IV-31

ASSESSMENT OF SPNB'S PLANNED ENHANCEMENTS, BY COMPANY SIZE

PLANNED ENHANCEMENTS	IMPORTANCE		
	SMALL COMPANIES (REVENUES <\$5M)	MIDDLE MARKET COMPANIES	
		REVENUES \$5- 20M	REVENUES \$20-150M
DEVELOP COST BUDGET MODULE	L	M	H
FICA PAID BY EMPLOYER	H	H	H
BEFORE AND AFTER MASTER FILE CHANGES REPORT	L	M	H
STANDARD SICK AND VACATION ACCRUAL	L	M	H
TAX AND W-2 REPORTS DURING THE YEAR	L	L	M
SPECIAL PAY CODES AND DESCRIPTIONS	L	M	H
PRODUCE PERS/STRS ON ADJUSTMENTS PROCESSED	L	L	M
NEW FEE AND COST MONTH END REPORT	L	M	M
AUTOMATE SCHEDULING OF CUSTOM REPORTS	L	M	M
DATA VALIDATION CHANGES	M	M	H
CHANGE REPORTING FREQUENCY FOR PERS REPORT	L	M	M
CHANGE FIT AND FICA IMPOUND FREQUENCY	H	H	H
CHANGE METHOD OF FUTURE QUARTER ADJUSTMENTS	L	M	M

H=HIGH M=MEDIUM L=LOW

EXHIBIT IV-31 (CONT.)

ASSESSMENT OF SPNB'S PLANNED ENHANCEMENTS, BY COMPANY SIZE

PLANNED ENHANCEMENTS	IMPORTANCE		
	SMALL COMPANIES (REVENUES <\$5M)	MIDDLE MARKET COMPANIES	
		REVENUES \$5-20M	REVENUES \$20-150M
HANDLING OF PRIOR QUARTER'S WAGES IN TAX REPORTS	L	M	H
IMPROVEMENT IN OUTPUT SCHEDULING	M	H	H
OPERATIONAL SCHEDULING OF TAX REPORTING	H	H	H
MODIFY W-2 PRINTING FOR 1980 COMPLIANCE	H	H	H
INCREASE CAPACITY TO HANDLE 28 DEDUCTIONS	L	L	H
OUT-OF-STATE TAX REPORTING	L	M	H

H=HIGH M=MEDIUM L=LOW

- The number and variety of enhancements suggest a product that is approaching the end of its life cycle.
- All of the planned enhancements are candidates for inclusion in the requirements for a payroll system for larger, middle market companies.

3. FUTURE SYSTEM REQUIREMENTS

- A summary of future system requirements for SPNB payroll services, by company size, is shown in Exhibit IV-32.
- If the payroll product is ever to become profitable in its own right, labor-intensive areas must be reduced through automation.
- Key to data entry for both phone-in and batch input is the development of a screen-driven system whereby the key entry operator can either hear phone information or read manual input as customer file and labor data are viewed on a CRT.
- Screen-driven systems depend on access to customer information data bases. Past payroll systems have evolved using sequential master information file designs. The existing SPNB payroll product is no exception.
- A "data base-like" capability is possible by distributing master file and other payroll data into a data base to match planned payroll cycles. The data are then screen-accessible to permit data entry on a selected basis.
- Availability of payroll information data base would go a long way toward solving the other major problem of reporting customer data on an exception or custom basis.
- Implementing the above approach would enable SPNB to greatly reduce data entry, validity checking and balancing input data for both the phone-in and batch product offerings.

EXHIBIT IV-32

FUTURE SYSTEM REQUIREMENTS FOR SPNB'S
PAYROLL PROCESSING SERVICE, BY COMPANY SIZE

FEATURE	COMPANY SIZE		
	SMALL (REVENUES <\$5M)	MIDDLE MARKET	
		REVENUES \$5-20M	REVENUES \$20-150M
PAY-BY-PHONE SCREEN DATA ENTRY	X	X	
DATA ENTRY BY CUSTOMER CRT TERMINAL			X
BATCH DATA INPUT			
- SINGLE FORM FOR ALL MASTER FILE INPUT			X
- ALL CHANGES ON SINGLE OUTPUT FORM			X
- SCREEN DATA ENTRY	X	X	X
24-HOUR TURNAROUND TAX SERVICE	X	X	X
- IMPOUND AND FILE FOR ALL STATES		X	X
LABOR DISTRIBUTION			
- IMPROVED BASIC LABOR DISTRIBUTION		X	X
- COMPREHENSIVE LABOR DISTRIBUTION		X	X
- INTEGRATED LABOR COST SYSTEM			X

EXHIBIT IV-32 (CONT.)

FUTURE SYSTEM REQUIREMENTS FOR SPNB'S
PAYROLL PROCESSING SERVICE, BY COMPANY SIZE

FEATURE	COMPANY SIZE		
	SMALL (REVENUES <\$5M)	MIDDLE MARKET	
		REVENUES \$5-20M	REVENUES \$20-150M
PERSONNEL REPORTING - MODULAR HUMAN RESOURCES SYSTEM		X	X
COMPANY REPORTING - SELECTIVE DATA BASE INQUIRY	X	X	X
- FLEXIBLE, CUSTOMIZED REPORTING	X	X	X
INTEGRATION WITH GENERAL ACCOUNTING SERVICES			X

- The same approach would be used to shift responsibility for data input to larger middle market companies that might use intelligent terminals for payroll and other bank-related financial services in the future.
- As discussed in Chapter V, Competition, INPUT believes that the use of voice/response for phone-in payroll data entry, as recently implemented by Bank of America, may not be accepted by small company executives. The voice/response approach is also self-limiting with respect to other financial services offerings to middle market companies.
- Development of a new payroll product for larger middle market companies should balance distributed data base architecture for input and output with the cost effectiveness of sequential processing, or be completely transaction-driven. The probable cost (\$2-3 million) of new development suggests amortization of investment over more than the California marketplace.

V COMPETITION

V COMPETITION

A. MARKET SHARE

- With annual revenues exceeding \$36 million for payroll processing services, and with 35% of the total processing services market, Bank of America is by far the leading vendor, as shown in Exhibit V-1.
 - The two leading vendors, Bank of America and ADP, control over 50% of the current marketplace.
- These estimates are based on vendor interviews, supplemented by data gathered by INPUT's Company Analysis and Monitoring Program (CAMP).
- In addition to the major vendors identified in Exhibit V-1, a number of other vendors, primarily service bureaus and specialty vendors, supply payroll services to the California marketplace. A group of other vendors represents just over 15% of the market. Some of the other vendors identified by user respondents are:
 - Safeguard Payroll Systems.
 - Xerox Computer Services.
 - Datatronics.

EXHIBIT V-1

VENDOR SHARE OF PAYROLL SERVICES MARKET IN CALIFORNIA, 1980

NUMBER OF SERVICES VENDOR	NUMBER OF ACCOUNTS	AVERAGE ACCOUNT SIZE	TOTAL EMPLOYEES PAID	AVERAGE ANNUAL REVENUE PER EM- PLOYEE (\$)	ANNUAL REVENUES (\$ MILLION)	MARKET SHARE (PERCENT)
BANK OF AMERICA	15,000	70	1,050,000	\$34	\$ 36	35%
ADP/UCB	11,000	60	660,000	34	22	21
SECURITY PACIFIC	4,400	50	220,000	34	8	8
BRADFORD/ CROCKER	2,700	60	162,000	34	5	5
WELLS FARGO	2,300	60	138,000	34	5	5
SBC/UNION	2,000	60	120,000	34	4	4
PAY-FONE	7,000	20	140,000	39	5	5
OTHER VENDORS	13,000	40	520,000	36	19	17
TOTAL	57,400	52	3,010,000	\$35	\$104	100%

- Data-Pay.
 - CARS.
 - Business Data Processing.
 - Computer Payroll Corporation.
- INPUT expects that many of these vendors will be absorbed by commercial services vendors such as ADP, SBC and Anacomp.
 - Based on vendor interviews, INPUT further subdivided vendor market share of total employees paid by company size, as shown in Exhibit V-2.
 - Applying average annual revenue per employee from the market forecast (see Chapter III, Exhibit III-7), resulted in a determination of vendor market share by company size, shown in Exhibit V-3.
 - Bank of America has the major portion of the middle market segment, with 45% of total revenues.
 - ADP and Bank of America, with 72% of total revenues, dominate the middle market.
 - Security Pacific National Bank has only a 2% share.
 - Instituting pay by phone, SPNB, with 18% of total revenues, has become the leading vendor of payroll services to small companies, in a market that is both widely held and rapidly growing.
 - Pay-Fone, specializing in payroll services to small companies, with nearly 13% of total revenues, is the second leading vendor.

EXHIBIT V-2

VENDOR SHARE OF CALIFORNIA PAYROLL
SERVICES MARKET BY NUMBER OF EMPLOYEES, 1980

SERVICES VENDOR	NUMBER OF EMPLOYEES			
	SMALL COMPANIES (REVENUES <\$5M)	MIDDLE MARKET COMPANIES (REVENUES \$5-150M)	LARGE COMPANIES (REVENUES >\$150M)	TOTAL
BANK OF AMERICA	119,000	861,000	70,000	1,050,000
ADP/UCB	102,000	528,000	30,000	660,000
SECURITY PACIFIC	166,000	42,000	12,000	220,000
BRADFORD/CROCKER	54,000	96,000	12,000	162,000
WELLS FARGO	65,000	73,000	-	138,000
SBC/UNION	33,000	81,000	6,000	120,000
PAY-FONE	122,000	18,000	-	140,000
OTHER VENDORS	269,000	251,000	-	520,000
TOTAL	930,000	1,950,000	130,000	3,010,000

EXHIBIT V-3

VENDOR SHARE OF CALIFORNIA PAYROLL
SERVICES MARKET BY COMPANY SIZE, 1980

SERVICES VENDOR	REVENUES (\$ MILLION)			
	SMALL COMPANIES (REVENUES <\$5M)	MIDDLE MARKET COMPANIES (REVENUES \$5-150M)	LARGE COMPANIES (REVENUES >\$150M)	TOTAL
BANK OF AMERICA	\$ 4.6	\$28.8	\$2.1	\$ 35.5
ADP/UCB	4.0	16.7	1.0	21.7
SECURITY PACIFIC	6.5	1.3	0.3	8.1
BRADFORD/CROCKER	2.1	3.1	0.2	5.4
WELLS FARGO	2.5	2.3	-	4.8
SBC/UNION	1.3	2.6	0.2	4.1
PAY-FONE	4.7	0.6	-	5.3
OTHERS	11.1	8.0	-	19.1
TOTAL	\$ 36.8	\$63.4	\$ 3.8	\$104.0

- Currently targeting its services to small companies with its touch-tone/voice response system, Bank of America runs a close third, with an 13% share of the small company market segment.
- Data provided by SPNB on current fees for payroll processing and analysis are shown in Exhibit V-4.
- The data indicate average annual revenues of \$7.5 million, nearly equal to the analysis of income and expense provided by SPNB.
- Assuming that half of the companies with 51-100 employees are middle market companies, and all with more than 300 are large, then distribution of current SPNB payroll services revenues are:

- Small companies	- 78%
- Middle market companies	- 19%
- Large companies	- 3%
- The distribution of SPNB market share shown earlier in Exhibit V-3 appears consistent with the SPNB-supplied data.

B. PRODUCT FEATURE COMPARISON

- INPUT interviewed major vendors of payroll processing services in the following manner:
 - On-site, with the responsible executive for payroll services in California.

EXHIBIT V-4

SECURITY PACIFIC NATIONAL BANK'S REVENUES
FROM PAYROLL PROCESSING FOR AUGUST 1980

COMPANY SIZE (NUMBER OF EMPLOYEES)	REVENUES*		TOTAL \$ THOUSAND	PORTION PERCENT
	PHONE-IN	REGULAR		
	\$ THOUSAND	\$ THOUSAND		
0-25	\$180	\$112	\$292	47%
26-50	60	78	138	22
51-100	20	94	114	18
100-300	1	63	64	10
>300	0	17	17	3
TOTAL	\$261	\$364	\$625	-
PORTION	42%	58%	-	100%

*REVENUES ARE FOR FEE AND ANALYSIS AND DO NOT INCLUDE CREDIT FOR DEPOSITS AND FLOAT.

- At INPUT, with a sales representative, on the basis of INPUT as a user of payroll processing services.
- Interviews were designed to obtain data for two purposes:
 - To assess the ability of commercial vendors to handle SPNB payroll processing services.
 - To compare the features of vendors' product offerings.
- Product features resulting from the two sets of interviews, categorized into six areas, are presented below.

I. INPUT METHODS

- A comparison of data input features used by the major payroll processing vendors is shown in Exhibit V-5.
- SPNB data entry lacks the ability to change all data elements using one form, a feature desired by user respondents.
- The Bank of America has recently introduced "Call Pay," where the user inputs data using a touch-tone phone while a computer-generated voice response unit leads the user through the process, editing input and verifying totals.
 - Control of input costs is a key element from the vendors' point of view.
 - Simplicity appears desirable from the users' viewpoint. Although the personal touch of person-to-person phone contact is obviously lacking, the program may provide sufficient user guidance and comfort.
 - The competitors' salespeople that INPUT interviewed did not think so, but they did say the price was low.

EXHIBIT V-5

DATA INPUT FEATURES OFFERED BY PAYROLL PROCESSING VENDORS

FEATURE	VENDOR					
	ADP/UCB	BANK OF AMERICA	BRAD- FORD/ CROCKER	CSC	SBC	SPNB
SINGLE DATA ENTRY FORM FOR ALL MASTER FILE DATA	YES	YES	YES	YES	YES	YES
ABILITY TO CHANGE PAYROLL DATA USING SINGLE PRINTED OUTPUT FORM	YES	YES	YES	YES	YES	NO
DATA WORKSHEET FOR EMPLOYEES	YES	NO	NO	YES	YES	YES
PHONE-IN PAYROLL						
PERSON TO PERSON	YES	NO	YES	YES	NO	YES
TOUCH TONE/VOICE RESPONSE	NO	YES	NO	NO	NO	NO
DIRECT DATA ENTRY BY TERMINAL	①	NO	NO	NO	NO	NO
DATA SUBMISSION VIA MAG TAPE	NO	YES	YES	②	YES	NO

① ADP PLANS TO BY MAY 1981

② VIA INTELLIGENT TERMINAL USING TAPE CASSETTE

- Success of the touch-tone/voice response approach depends on low change rates on payroll master file and other data to keep telephone time below 20 minutes per payroll. Acceptance is also dependent on users' willingness to accept the controlled response approach as opposed to the somewhat more costly person-to-person communication.
 - Small companies often change both their people and their assignments.
 - Small companies' payroll personnel tend to need continued support in inputting payroll change data.
- INPUT believes that the verdict is still out as to the cost effectiveness of touch-tone phone/voice response data input compared to data entry via screen-driven data base systems using scheduled telephone report from the user.
- ADP was the only vendor interviewed that indicated plans to offer middle market companies intelligent CRT terminals to enter payroll and other general accounting data on an interactive basis.
- CSC offers to large, middle market companies the capability to accept payroll and other general accounting data via tape cassette.
- Bank of America, Bradford and SBC will accept payroll input data via magnetic tape prepared by in-house computers of large companies, as a by-product of cost control systems.

2. TAX FEATURES

- Tax features offered by payroll processing vendors are shown in Exhibit V-6.
- SPNB tax features fall short of other vendors' offerings in two major areas:
 - Tax impounding reporting and filing for out of state.

EXHIBIT V-6

TAX FEATURES OFFERED BY PAYROLL PROCESSING VENDORS

FEATURE	VENDOR					
	ADP/ UCB	BANK OF AMERICA	BRAD- FORD/ CROCKER	CSC	SBC	SPNB
COMPLETE TAX SERVICE CALIFORNIA AND FEDERAL	YES	YES	YES	①	①	YES
OUT-OF-STATE TAX SERVICES	YES	YES	YES	YES	YES	NO
W-2 DURING THE YEAR FOR TERMINATIONS	YES	NO	NO	NO	NO	YES
TAX OVERRIDE ON SINGLE CHECKS FOR VACATION, BONUS, COMMISSION, ETC.	YES	YES	YES	YES	NO	NO

① IMPOUND AND PAYMENT DONE THROUGH THIRD-PARTY BANK.

- Adequate handling of exception payroll items, such as tax override, garnishments, etc.
- Middle market respondents attributed high importance to using out-of-state tax reporting services as shown previously in Chapter IV, Requirements Analysis, Exhibit IV-15.

3. TURNAROUND TIME

- Turnaround time offered by payroll processing vendors is shown in Exhibit V-7.
- ADP and CSC offer 24-hour turnaround time on high-priority payrolls where the payroll falls on the same day in the week for weekly or bi-weekly cycles.
- Automating the input via magnetic type or tape cassette enables Bradford, CSC and SBC to offer 24-hour turnaround to selected clients, primarily large and larger middle market companies.

4. LABOR DISTRIBUTION FEATURES

- Labor distribution features offered by payroll processing vendors are shown in Exhibit V-8.
- Bank of America offers the most comprehensive labor distribution reporting system, including quick response to design and production of custom reports.
- SPNB labor distribution features fall short of other vendors' offerings to middle market companies in two major areas:
 - Multiple-level aggregation.
 - Responsive, customized labor reporting design and preparation.

EXHIBIT V-7

TURNAROUND TIME OFFERED BY PAYROLL PROCESSING VENDORS

FEATURE	VENDOR					
	ADP/ UCB	BANK OF AMERICA	BRAD- FORD/ CROCKER	CSC	SBC	SPNB
PAYROLL BY PHONE 24-HR. TURNAROUND	YES	YES	YES	YES	NO	YES
BATCH INPUT 24-HR. TURNAROUND	YES ^①	YES	NO	YES ^①	NO	NO
48-HR. TURNAROUND	YES	YES	YES	YES	YES	YES
MAG TAPE TRANSMISSION 24-HR. TURNAROUND	NO	NO	YES	YES	YES	NO

① FOR WEEKLY AND BI-WEEKLY WHERE PAYROLL FALLS ON SAME DAY EACH CYCLE.

EXHIBIT V-8

LABOR DISTRIBUTION FEATURES OFFERED
BY PAYROLL PROCESSING VENDORS

FEATURE	VENDOR					
	ADP/ UCB	BANK OF AMERICA	BRAD- FORD/ CROCKER	CSC	SBC	SPNB
SHOW HOURS ONLY	YES	YES	YES	NO	YES	YES
HOURS AND DOLLARS SPREAD TO SPECIFIC JOB	YES	YES	YES	YES	YES	YES
WAGES AND OVERHEAD FACTORS SPREAD TO SPECIFIC JOB	YES	YES	YES	NO	YES	YES
DEPARTMENT, DIVISION OR OTHER MULTIPLE LEVEL AGGREGATIONS	YES	YES	NO	YES	YES	NO
VARIANCE REPORTS	YES	YES	NO	YES	YES	NO
PIECE WORK REPORT	YES	YES	YES	NO	NO	YES
VACATION/SICK PAY ACCRUAL	YES	YES	YES	NO	YES	YES
CUSTOMIZED LABOR REPORTS	YES	YES	NO	YES	YES	YES*

*ONLY THROUGH CUSTOMIZED REPORTS.

5. PERSONNEL REPORTING FEATURES

- Personnel reporting features offered by payroll processing vendors are shown in Exhibit V-9.
- SBC and ADP both offer fairly comprehensive human resources accounting and reporting systems integrated with their payroll services.
- CSC currently offers personnel systems tied to payroll services only to its large customers on a customized basis. It is reviewing the market for such services to middle market companies.
- Bank of America is currently expanding its personnel services offering through a new personnel report design and preparation service.
- A big revenue producer for ADP is its workman's compensation audit and administration. Users have a high probability of saving more than ADP fees charged through lower workman's compensation premiums.

6. OTHER FEATURES

- Other features offered by payroll processing vendors are shown in Exhibit V-10.
- Although all vendors offer general business accounting services, only the Bank of America and SBC fully integrate the payroll data into the general ledger system.
- In that over 20% of middle market companies use outside general accounting services, future product offerings would benefit from the potential to bundle these services, especially if offered with an intelligent CRT terminal.

EXHIBIT V-9

PERSONNEL REPORTING FEATURES OFFERED BY PAYROLL PROCESSING VENDORS

FEATURE	VENDOR					
	ADP/ UCB	BANK OF AMERICA	BRAD- FORD/ CROCKER	CSC	SBC	SPNB
PERSONNEL REPORTS						
EQUAL OPPORTUNITY	YES	YES	YES	YES	YES	YES
HUMAN RESOURCES	YES	YES	NO	①	YES	NO
UNEMPLOYMENT COM- PENSATION						
SUMMARY REPORTING	YES	YES	YES	YES	YES	YES
AUDIT AND ADMINIS- TRATION	YES	NO	NO	NO	NO	NO
CUSTOMIZED REPORTING	YES	YES	NO	YES	YES	NO

① ONLY ON CUSTOMIZED SYSTEM FOR LARGE USERS

EXHIBIT V-10

OTHER FEATURES OFFERED BY PAYROLL PROCESSING VENDORS

FEATURE	VENDOR					
	ADP/ UCB	BANK OF AMERICA	BRAD- FORD/ CROCKER	CSC	SBC	SPNB
MAGNETIC TAPE REPORTING TO STATE AND FEDERAL GOVERN- MENT	YES	YES	YES	NO	YES	YES
PAYROLL LABOR DATA INTEGRATED WITH ACCOUNTS PAYABLE AND GENERAL LED- GER	NO	YES	NO	NO	YES	NO
CHECKS ON ANY BANK	YES	①	YES	YES	YES	NO
AUTOMATIC PAYROLL DEPOSIT						
BANK OF RECORD	YES	YES	YES	YES	YES	YES
OTHER DEPOSITORY INSTITUTIONS	YES	YES	YES	NO	YES	YES

① ONLY ON LARGER PAYROLLS.

- SPNB is the only vendor not offering payroll services to correspondent banks. Some 20% of Western Bradford revenues come from offering private label payroll services to Crocker's California correspondents.

C. PRODUCT PRICING

- Taking the viewpoint of an end user, INPUT interviewed sales personnel of six major vendors of payroll services.
- To say that vendor price lists for all service options are confusing for purposes of price comparison would be a great understatement.
- INPUT decided to do a price comparison based on the following assumptions:
 - Eighty employees.
 - All employees are in California.
 - Vendor has power of attorney and files all tax returns.
 - User receives bank signed checks.
 - No master file changes.
 - No labor distribution.
 - No personnel reporting.
- The price analysis shown in Exhibit V-II indicates a fairly narrow spread (17%) between vendors on a per-payroll basis.

EXHIBIT V-11

PRICING AS REPORTED BY
PAYROLL PROCESSING VENDORS

PAYROLL ITEM	VENDOR					
	ADP/UCB	BANK OF AMERICA	BRAD-FORD/CROCKER	CSC	SBC	SPNB
PER EMPLOYEE	\$ 0.41	\$ 0.47	\$ 0.49	\$ 0.51	\$ 0.505	\$ 0.415
SUBTOTAL FOR 80 EMPLOYEES	\$32.80	\$37.60	\$39.20	\$40.80	\$40.40	\$33.20
PER PAYROLL	31.00	36.25	32.50	25.00	32.48	29.50
PER PAYROLL TOTAL	\$63.80	\$74.85	\$71.70	\$65.80	\$72.88	\$62.70

- The research indicates that price is not a significant factor in vendor selection.
 - Vendors perceive that price is of low importance (see Decision Factors, Exhibit V-14).
 - Users feel that price is not an important factor for changing vendors, as was shown in Chapter IV, Requirements Analysis, Exhibit IV-11.
- INPUT attributes the lack of price sensitivity to payroll processing services to the highly competitive nature of the marketplace.
- SPNB, with a market-perceived low cost of service, could increase prices 10-15% to support improved services.

D. SALES AND SUPPORT

- It is difficult to obtain data from vendors for payroll processing services' sales and sales support in California because:
 - Commercial vendors are nationwide.
 - Banks' and commercial vendors' sales and support personnel sell other business services including payroll.
- Vendor-supplied data for sales and support personnel are shown in Exhibit V-12.
- The data indicate that ADP has targeted California for expansion of its market share.

EXHIBIT V-12

SALES AND SUPPORT PERSONNEL
IN CALIFORNIA, AS REPORTED BY VENDORS

TYPE	NUMBER OF EMPLOYEES PER VENDOR					
	ADP/ UCB	BANK OF AMERICA	BRAD- FORD/ CROCKER	CSC	SBC	SPNB
SALES	65	50	20	20	25	22
CUSTOMER SERVICE	NA	100-150	20-40	NA	NA	57
DEVELOPMENT / MAINTENANCE	NA	50+	15-20	NA	NA	9
MANAGEMENT	NA	30+	7	4	NA	5
OTHER	NA	300+	100+	10	NA	125
TOTAL	-	500+	170+	-	-	218

NA = NOT AVAILABLE

- Using vendors' market share revenues from Exhibit V-1, Bank of America, with annual revenues of over \$800,000 per salesperson, is operating from a safe customer base.
- Revenues per salesperson, currently at \$340,000 per year for ADP, will rise as ADP expands in the California marketplace.
- The SPNB annual revenue per salesperson rate of \$360,000 suffers from the company's position at the lower end of the marketplace with respect to company size.
- The deterioration of SPNB's payroll product is evident when the number of its development/maintenance personnel is compared to Bank of America's.
 - SBC reported they spent in excess of \$2 million dollars last year revising and improving their national product.

E. VENDORS' PERCEPTIONS

I. COMPETITION

- Vendors were asked to identify:
 - What features distinguished their payroll services from those of their major competitors.
 - The positive and negative features of their competitors.
- a. ADP
- ADP said that its positive features were:

- Nationwide service.
 - Low price.
 - Twenty-four hour turnaround.
 - Customized reports.
 - Knowledgeable support people.
 - High level of support.
 - New customers get special processing attention for first few payrolls.
- ADP's competition said that its positive features were:
 - Adequate system.
 - Twenty-four hour turnaround.
 - Good standard reports.
 - Unemployment compensation service.
 - Nationwide.
 - Current on legal matters.
 - Good MIS.
 - Good integration.
 - Good personnel reports.

- Four packages - variety to fit needs.
- Experience.
- ADP's competitor said that its problems were:
 - Lots of turnover.
 - Poor service.
 - Different programs in various geographical areas.
 - Systems don't talk to each other.
 - Don't handle taxes themselves.
 - Inflexible.
 - Lack of coverage in California.

b. Bank of America

- Bank of America said that its positive features were:
 - Integrated with personnel and MIS, general ledger, accounts payable and receivable, etc.
 - Full array of options.
 - Fifty to eighty programmers on payroll.
 - Fiduciary, or service basis.
 - Single point of accountability.

- Customer support.
- Tax file - 50 states.
- Flexible.
- Statewide pickup and delivery.
- Double backup (computer, bank branches).
- Bank of America's competition said that its positive features were:
 - Tied to loan accounts.
 - Deliver bank checks.
 - Multibranch - ease of pickup and delivery.
 - Good data entry.
 - Good personnel.
 - Integration of reports.
 - Good report writer.
 - Custom reports.
- Bank of America's competition said that its problems were:
 - Master sheet gone when submitted for changing.
 - Big size, impersonal.

- High turnover of liaison people.
- Support personnel spread thin.
- Don't batch total.

c. Bradford

- Bradford said that its positive features were:

- Phone pay - one-third of its clients use it.
- Faster turnaround with phone.
- Price - will meet competition, will negotiate.
- Banking relationship.
- Operator on phone - not touch-tone.
- Pays sales staff 50% more than some others do.
- Offers corporate trust and escrow accounting.
- Tax service - all 50 states.
- Handles correspondent payroll and other processing.
- Responsive service.
- Not better or worse than competition.

- Bradford's competition said that its positive features were:

- Branches.
- Free checks to user employees.
- Bundle fees.
- Bradford's competition said that its problems were:
 - No logic in data flow.
 - Use three registers where one would be better.
 - Not putting dollars into system enhancement.

d. CSC

- CSC said that its positive features were:
 - Reliability.
 - Ability to handle very large accounts.
- The competition offered no opinions about CSC.

e. SBC

- SBC said that its positive features were:
 - Flexible custom reports.
 - Service.
 - National payroll product.

- The competition offered no opinions about SBC.

- f. SPNB

- SPNB said that its positive features were:
 - Service.
 - Pay phone.

- SPNB's competition said that its positive features were:
 - Good distribution.
 - Phone pay.
 - Customer support.
 - Tax filing.
 - Adequate system for a limited purpose.

- SPNB's competition said that its problem areas were:
 - Not putting dollars into system.
 - No branches in north.
 - Problem with integrating products.
 - Poor standard reports.
 - Cater to smaller market.

- Lack of adequate sales and support coverage.
- Low priority on making changes.

2. MARKET GROWTH

- As shown in Exhibit V-13 vendors report that the current market for payroll services in California is growing at a 20% average annual rate.
- Vendors as a group expect sustained growth in the the near term, with some decline in five years.

3. DECISION FACTORS

- Vendors were asked to identify which factors were important in a user's decision to buy a vendor's payroll processing service.
- As shown in Exhibit V-14, service and accessibility are more than twice as important as product integration. Price is least important.

F. VENDORS' PROFITABILITY

- Major vendors reported that pretax profit margins over payroll processing services range from 10% to 25%, as shown in Exhibit V-15.
- Reported profit margins vary greatly depending on whether they include deposit-related items.
- The data suggest that a 17% pretax margin, exclusive of deposit-related credits for payroll processing, is an expected profit target.
- An analysis of income and expense data provided by SPNB indicates that 1980 pretax margins are:

EXHIBIT V-13

MARKET GROWTH OF PAYROLL PROCESSING SERVICES
IN CALIFORNIA, AS REPORTED BY VENDORS

VENDOR	MARKET ANNUAL GROWTH RATE (PERCENT)		
	1980	1982	1985
ADP	25%	25%	20%
BANK OF AMERICA	20	20	20
BRADFORD	20	16	16
SBC	29	20	20
CSC	18	20	13
SPNB	18	18	18
AVERAGE	22%	20%	18%

EXHIBIT V-14

IMPORTANCE OF MAJOR FACTORS IN USERS' DECISIONS TO USE
PAYROLL PROCESSING SERVICES, AS REPORTED BY VENDORS

FACTOR	AVERAGE RATING
SERVICE	9.7
AVAILABILITY OF SERVICE IN MANY CITIES	8.7
EXTENSION OF PRODUCT FEATURES	7.1
INTEGRATION OF OTHER PRODUCTS	4.3
LOW PRICE	4.1

RATING SCALE: 1-10, WHERE 1 = LOW AND 10 = HIGH

EXHIBIT V-15

PRETAX PROFIT MARGINS, AS REPORTED
BY PAYROLL PROCESSING VENDORS

VENDOR	PRETAX PROFIT MARGIN (PERCENT)	
	SERVICES ONLY	INCLUDING DEPOSIT - RELATED ITEMS
AUTOMATIC DATA PROCESSING	20+%	-
BANK OF AMERICA	-	25%
WESTERN BRADFORD	10-15	-
COMPUTER SCIENCES	20	-
SERVICE BUREAU COMPANY	15-20	-

- Thirty-seven percent profit, including deposit-related credits.
- Three percent profit on a fee-for-service basis.
- For 1981, float loss coupled with increases in direct cost rates exceeding planned price increases gives pretax margins of:
 - Twenty-nine percent profit, including deposit-related credits.
 - Two percent profit on a fee-for-service basis.
- From the data provided, INPUT concludes that SPNB should seek arrangements whereby it can retain deposit-related credits, and possibly share in fee-for-service profits for vendor-supplied payroll processing services.

G. EXPECTED FUTURE SCENARIOS

I. ADP

- Two separate interviews were conducted with different ADP personnel. A different view of ADP's market direction emerged from each respondent.
- One ADP employee saw great expansion in the lower market with a "mini" payroll service for \$25 per month for 5-10 employees. It would be sold through bank branches.
- The other, more senior respondent saw technologically oriented changes that would apply to the middle and larger markets.

- The expected changes were related to data input and output methods, with increasing involvement of the customer in data entry, key to disk, communications facilities, then inquiry, then printing on-site and eventually turnkey systems.
- ADP expects to offer payroll data entry on an interactive basis using intelligent CRT terminals to larger customers by March 1981.

2. BANK OF AMERICA

- The Bank of America views the payroll service as an adjunct to cash management and involvement in a host of employee benefits, such as pension and profit-sharing plans. Bank of America sees handling the total monied needs for company/employee relations.
- Bank of America sees the business services market expanding.
- The recent introduction of "Call Pay" is a strong commitment to the low end of the market.
 - Little customer support is offered, or apparently needed.
 - Available reports are structured and limited.
 - Input methods preclude use by any but small payrolls.
- The current introduction of the personnel reports will focus on the middle and upper market.
 - These reports should appeal to the middle market, beset with demands for government reports, but without a professional personnel department or the ability to cope with all the data required for personnel management from both inside and outside the company.

- Larger companies, where the EDP focus is on operational concerns such as inventory, scheduling and accounting, may also welcome the personnel reports, which will usually be tied in, yet independent of, the payroll system.
- The continued enhancement of the MIS system, allowing custom reports integrating payroll, personnel, general ledger, payables and receivables, as well as input of any other data, is a facility designed for the middle and upper market.
- The expansion in the middle and upper markets will be facilitated by more network/communications facilities, new data input methods, inquiry possibilities and output at the user's terminal.

3. CSC

- CSC expects to develop core programs and tailor them on I/O to provide a range of services for various industry segments.
- They plan to target future offerings to specific industry segments (e.g., hotels, construction, restaurants, etc.).
- CSC plans to make a substantial investment in recently acquired Itel business services to standardize products nationwide and upgrade product offerings.

4. BRADFORD/CROCKER

- With one-third of its customers using phone input of payroll information, Bradford is clearly addressing the lower market with its present offering.
- Other indicators of exclusively lower market appeal are:
 - No integration, or even offering, of general ledger, payables or receivables package.

- As customers leave Crocker as their banker, they leave the payroll service also.
- Bradford is working on a program with a target date in 1981, which will be significantly more advanced than its present one. The most Bradford could say about its present program, a seven to eight year old CSC derivative, is that it's in COBOL and therefore easy to modify and enhance.
- Bradford expects more on-line communications in the future, with delivery to the end user and input to the vendor via electronic means.
- Nationwide banking is seen as impacting the payroll service, but no clear picture emerged as to how Bradford would meet the challenge.

5. THE SERVICE BUREAU COMPANY

- SBC's focus has been on the middle and upper market. There was no indication from either of two interviews of different SBC personnel that this focus was changing.
- The focus is indicated by the average size of its users, and the nature of its payroll service.
 - SBC's average user payroll is 100-300 people, compared with all other vendors in the research who reported average sizes between 25 and 100.
 - SBC offers custom labor distribution reports, personnel reports, integration with general ledger, etc., all of which are relevant to the middle and upper markets.
- SBC sees nationwide payrolls and nationwide banking as a constructive factor in its future.

- To the extent that SBC is able to work with banks nationwide, its extensive, in-place national network is a very positive feature.
- Nationwide banking coupled with a nationwide payroll service offering would be attractive to middle market and above companies with multistate locations. This type of service is currently being offered only by ADP on a batch basis.

VI STRATEGIC ANALYSIS

VI STRATEGIC ANALYSIS

A. ALTERNATIVE STRATEGIES

I. DEFINITION

- INPUT considered five alternative strategies in relation to SPNB's Customer Payroll Service.
 - Sell the Customer Payroll Service.
 - Upgrade in-house capabilities.
 - Provide payroll services through private label arrangements.
 - Form a joint venture.
- Selling the Customer Payroll Service means that offering payroll services is not compatible with SPNB's long-range objectives, and is better met by commercial computer services vendors such as ADP. Payroll services are offered on a referral basis only.

- Upgrading in-house capabilities implies the commitment to revise both the phone-in payroll service to small companies, revising or redoing the customer payroll service for middle market companies, and expanding marketing and support staff to compete in the California marketplace.
- Taking the private label route means that SPNB continues to offer payroll processing services, but the services are in fact provided by a commercial payroll services vendor.
- The joint-venture alternative seeks to combine SPNB's existing customer payroll services product operations and sales staff with the development, processing and sales staff of a computer services vendor, to offer SPNB payroll processing and possibly other business services, initially in California, and potentially nationwide.
- The rationale supporting INPUT's recommendations, together with summary financial analyses, are presented for each alternative.

2. OVERVIEW

a. Major Bank Competition

- As background to considering the alternatives, INPUT first looked at the method of offering customer payroll services in California. Exhibit VI-1 shows that, of the major banks in California, only Bank of America, SPNB and Wells Fargo continue to offer payroll services themselves. Except for Bank of America, which still holds dominant market share (33%), commercial banks in California are following the national trend to get out of the payroll processing business while retaining presence in some manner.

b. Market Considerations

- Attention was next turned to the significant findings from the market analysis in Chapter III:

EXHIBIT VI-1

SOURCE AND METHOD OF HANDLING CUSTOMER PAYROLL
BY MAJOR CALIFORNIA BANKS

BANK	SOURCE OF PAYROLL	METHOD OF HANDLING
BANK OF AMERICA	B / A	B / A
SECURITY PACIFIC	SPNB	SPNB
WELLS FARGO	WF	WF
CROCKER NATIONAL	WESTERN BRADFORD	JOINT VENTURE
UNITED CALIFORNIA	ADP	ADP
UNION BANK	SBC	PRIVATE LABEL
BANK OF CALIFORNIA	ADP	PRIVATE LABEL
BARCLAYS BANK	ADP	ADP

- The total 1980 market for payroll processing services in California exceeds \$100 million.
 - Payroll processing services to middle market companies represented 62% of total services.
 - Payroll processing services to small companies were 35% of total services.
 - User expenditures for handling payroll manually in 1980 were over \$80 million, nearly 87% of which were expenditures by small companies.
 - Experiencing nearly a 20% annual growth, total user expenditures for payroll processing services will exceed \$250 million in 1985.
 - With a 29% average annual growth in payroll processing services to small companies, half of total 1985 computer services revenues will be to these companies.
- The market analysis data indicate that the market is attractive, and that greatest growth for payroll processing services on a standalone basis will occur at the lower end with small companies.

c. Competitive Considerations

- In analyzing the California competition as presented in Chapter V, INPUT found that:
 - In the middle-size company market, Bank of America was the largest vendor (with a 45% share), which, together with ADP/UCB (26%), controls the middle market.
 - SPNB currently holds about 2% of the middle market.

- In the small company market, which is widely held, SPNB is the leading vendor, with a 18% market share. Payphone, specializing in the small company market, and Bank of America, moving into the small company market with their "Call Pay" system, each hold a 13% market share.
- From the viewpoint of both market growth and market share, it would appear that, at least in the near term, SPNB should exploit its position in the small company market segment.

d. Product Considerations

- INPUT's conclusions (with respect to the SPNB product evaluation presented in Chapter IV) for the small company market segment are that:
 - Phone-in service is for the most part competitive. User dissatisfaction was expressed primarily in the customer service area.
 - Data entry, a major constraint to service, growth and profitability, could be much more competitive by development of a screen-driven data entry system operating against a distributed data base.
- Incorporation of a flexible report writing system is needed to respond to customer inquiry and to produce customized reports at competitive prices.
- INPUT's evaluation of the SPNB payroll system is that the product is feature-competitive in the current small company market segment. With some improvement, the product could remain competitive for another two to three years.
- INPUT's evaluation of the SPNB customer payroll product for middle market companies is that it is marginally competitive for smaller middle market companies (revenues between \$5-20 million), but noncompetitive for larger middle market companies. Some major deficiencies are:

- Major portion of the software is in assembly language.
- Software documentation is incomplete.
- Size of master file and labor input fields are limited.
- Product lacks tax impounding and reporting for all states.
- Access to company data for inquiry or for customized reports is limited and nonresponsive.
- Labor distribution system is limited and inflexible.
- Product lacks automated customer input.
- Twenty-four hour turnaround time is not offered.

3. ALTERNATIVE BUSINESS STRATEGIES

a. Sell Customer Payroll Services

- The following considerations apply to the strategy of selling SPNB's business customer payroll service.
 - With computer services revenues currently in excess of \$100 million (exclusive of deposit-related credits), the California market is considered an excellent target of opportunity by commercial computer services vendors.
 - Returning between 15-20% pretax margin, payroll processing services are a profitable market opportunity on a standalone basis.
 - Returning approximately 88% pretax margin, SPNB's deposit-related credits, though declining, are still an important revenue source.

- Offering the payroll product to middle market corporate customers forms a basis for other business and financial services offerings such as general accounting and cash management services.
- Corporate clients perceive that they benefit from placing payroll services with "their" bank.
 - They feel that they get a better deal on loans.
 - They want to be relieved of the responsibility of depositing payroll taxes and filing tax returns.
- Although SPNB's current product and customer base may be incompatible with SPNB management's overall objectives to be "the" corporate banker to California middle market companies, INPUT believes that the customer payroll service could be profitable in its own right, and could serve as a base to "grow" middle market companies in the long term.
- INPUT strongly recommends against this alternative.

b. Upgrade in-house capabilities

- The decision to upgrade SPNB's customer payroll system in-house is to a large degree a question of priorities.
- There is currently a scarcity of both EDP technical and managerial personnel at SPNB, personnel necessary to maintain and upgrade current systems as well as design and develop new software systems.
- SPNB is in the process of shifting to a data base orientation for all new systems development, in itself a very major change within the Information Systems Division (ISD).

- SPNB is shifting to on-line, transaction-driven systems for its mainline consumer and corporate applications, to meet competition in a rapidly changing banking and finance marketplace.
- Customer payroll, while important, is not in the mainstream of SPNB's banking activities.
- INPUT deems it unlikely that SPNB could buy a payroll product from a commercial vendor or other commercial bank that could be substituted into the core of SPNB's existing customer payroll system without costly revision.
 - MSA BIG EIGHT Payroll System represents one possibility.
 - The Payroll System III offered by Wang is another.
 - No commercial bank package has thus far been identified.
- INPUT estimates that the core payroll program represents no more than a quarter of the total cost of CPS system development and integration. Purchasing a new core package does not alleviate the critical EDP technical and managerial personnel shortage in ISD.
- Contracting with a commercial vendor to make and/or buy a core package and design and/or develop the surrounding systems is possible, but again places major administrative and technical burden on SPNB ISD.
- Based on limited review of the SPNB provided "Customer Payroll Services Operations Workflow," and investments reported by commercial payroll processing vendors in developing national payroll products, INPUT estimates that SPNB could conservatively spend \$2.5 million over 18 months to build and integrate a competitive payroll product for middle market companies.
- INPUT recommends that SPNB look to an outside solution for providing payroll services to corporate customers.

c. Private Label Arrangements

- Under this alternative, SPNB would continue to do sales and sales support while the payroll processing vendor would become responsible for system development and operations.
- Major advantages to this strategy are:
 - SPNB retains the "image" of providing payroll services to its corporate customers, while in fact the service is provided by the selected vendor.
 - Critical EDP technical and managerial resources are freed, as the vendor's systems and programming resources are available for system upgrade and new systems development.
 - SPNB would retain income from deposit-related credits.
- Significant disadvantages result from selection of this alternative:
 - SPNB would lose control of any future course of action with respect to product development and operation.
 - Technical and operational expertise would atrophy over time.
 - Complex operational interfaces would be necessary between the processing vendor, bank in-house EDP systems and the bank's sales and branch personnel.
 - SPNB would lose the major portion of payroll processing profits. It could be that marketing expenses would exceed expected payroll processing profit.
- INPUT believes that this alternative is only a little better than selling the customer payroll service.

- INPUT recommends against the strategy of offering payroll services through private label services, except as a fall-back position if satisfactory joint-venture arrangements cannot be accomplished.

d. Joint-Venture Alternatives

- INPUT considered two major alternatives to the joint-venture strategy.
 - First form SPNB Business Services as a separate organization, perhaps a bank subsidiary.
- Negotiate a joint venture for payroll services first. As the joint venture appears successful, extend the venture to include other business and financial services.
 - Sales and sales support would be handled by SPNB personnel in SPNB Business Services.
 - All operations and development would be transferred to the joint-venture partner.
- Alternatively, form a joint venture for SPNB Business Services.
 - Transfer all SPNB business-related personnel to the joint venture.
 - Transfer all operational and development to the joint venture.
- Advantages of the joint-venture approach are:
 - The ability to expand services offerings, such as workman's compensation administration and evaluation and escrow funds accounting.
 - The ability to offer private label business and financial services to correspondents.

- The future capability to offer business and financial services on a national basis.
- Applying both SPNB's and joint-venture partner's resources to best advantages.
- A simplification of the operational interfaces between joint-venture offerings and bank operations.
- Among the significant disadvantages to the joint-venture route are:
 - Sharing the profits for both payroll processing services.
 - The need for a level of bank capital investment in the joint-venture.
 - Possibility of potential competition with the joint-venture partner.
- INPUT recommends that SPNB select the joint-venture strategy.
- The recommended joint-venture strategy involves the management approach of:
 - Establishing SPNB Business Services as a bank subsidiary.
 - Negotiating a joint venture to include SPNB Business Services.
 - Negotiate buy-back provisions.
 - Shift SPNB Business Services to the joint venture.
 - Shift existing business processing services to the joint venture.

4. PRODUCT STRATEGY

- Conclusions reached in market analysis as to market size, competition as to SPNB market share and product requirements related to company size, point to a strategy for the SPNB payroll product which encompasses the following recommendations.
 - As a first priority, upgrade and expand payroll services to the small company market segment.
 - Implement development of a new payroll system for middle market companies which can incorporate small company accounts with minimum conversion. (See Chapter IV, Section C, Paragraph 3, Future System Requirements.)
 - Place all new middle market and large companies on the new payroll system.
 - Convert remaining middle market companies to new payroll processing system.
 - Merge and convert (as necessary) small company accounts to new payroll processing system.
- SPNB should proceed with upgrading the existing product for the small company marketplace while pursuing a joint-venture relationship.

B. FINANCIAL ANALYSIS OF ALTERNATIVE STRATEGIES

- The financial analysis that follows is based on INPUT's understanding of the Customer Payroll Service Analysis of Income and Expenses provided by SPNB and a number of simplifying assumptions and parameters. The methodology is explained in sufficient detail that SPNB can substitute different values to

adjust alternative valuations if other revenue and expense allocation data become available.

I. ASSUMPTIONS

- Except as otherwise noted, the analysis for all alternatives was based on the following assumptions:
 - Management business decisions will not affect 1981 operations.
 - SPNB will give first priority to the small company marketplace.
 - In 1981, additional ISD payroll product expenses will be offset by reduced data input costs.
 - The ratio of deposit-related credits to payroll processing fees will remain constant during the forecast period; that is, decline in deposit and float will be offset by the imputed value of retained deposits and float.
 - General/Administrative (G/A) is the only expense related to imputed, deposit-related revenues.
 - A G/A rate of 12% of deposit-related revenues was applied as an expense.
 - Beginning in 1982, \$2.5 million is required over 18 months to develop and integrate a new payroll system for middle market companies, \$1.5 million of which will be provided by the joint-venture partner under that alternative.

2. SELL CUSTOMER PAYROLL SERVICES

- The financial implications of selling SPNB's payroll services are shown in Exhibit VI-2. Revenues from processing services terminate in 1981, and

EXHIBIT VI-2

FORECAST OF REVENUES, EXPENSES AND PRETAX PROFITS
FOR STRATEGY OF SELLING SPNB'S
COMPUTER PAYROLL SERVICES, 1981-1985

ITEM	1981 (\$M)	1982 (\$M)	1983 (\$M)	1984 (\$M)	1985 (\$M)	AAGR (%)
REVENUES						
PROCESSING	\$ 9.1	\$ 0	\$ 0	\$ 0	\$ 0	-
DEPOSIT CREDITS	4.2	3.6	3.1	2.6	2.2	-
TOTAL REVENUES	\$13.3	\$3.6	\$3.1	\$2.6	\$2.2	(57%)
EXPENSES						
PROCESSING	9.0	0	0	0	0	-
DEPOSIT CREDITS	0.5	0.4	0.4	0.3	0.3	-
TOTAL EXPENSES	\$ 9.5	\$0.4	\$0.4	\$0.3	\$0.3	(37%)
PRETAX PROFITS						
PROCESSING	0.1	0	0	0	0	-
DEPOSIT CREDITS	3.7	3.2	2.7	2.3	1.9	-
TOTAL PRETAX PROFITS	\$ 3.8	\$3.2	\$2.7	\$2.3	\$1.9	(19%)
PRETAX MARGINS (PERCENT)						
PROCESSING	2%	0	0	0	0	-
DEPOSIT CREDITS	88	89%	87%	88%	87%	-
AVERAGE PRETAX MARGIN	28.6%	89.0%	87.0%	88.0%	87.0%	-

imputed revenues from deposit credits fall off at a 15% annual rate, consistent with payroll customer turnover.

- Total pretax profits of \$10.1 million over the 1982-1985 forecast period would be supplemented by between \$5 and \$10 million, resulting in a total pretax situation of approximately \$19 million. INPUT data indicates that processing services are acquired for 50-100% of annual revenues or seven to ten times pretax profits.

3. UPGRADE IN-HOUSE CAPABILITIES

- The strategy of upgrading SPNB's customer payroll services in-house, uses annual revenue growth projections of 14% to 20%, averaging 17% for the 1982-1985 forecast period. As shown in Exhibit VI-3, 1985 revenues will exceed \$25 million.
- Increasing processing revenues, together with decreasing costs resulting from improved data entry and other operational improvements, increases pretax profit margins to 13% in 1985.
- Profit increase at a 25% average annual growth rate (AAGR) will result in total pretax profits of approximately \$24 million over the four-year forecast period.

4. PRIVATE LABEL BASIS

- The strategy of SPNB's offering customer payroll services on a private label basis, as shown in Exhibit VI-4, has several additional assumptions:
 - INPUT's research indicates that computer services vendors spend about 30% of revenues on sales and marketing operations. This ratio has been used to allocate processing revenues to offset expenses for marketing and sales retained by SPNB.

EXHIBIT VI-3

FORECAST OF REVENUES, EXPENSES AND PRETAX PROFITS
FOR STRATEGY OF UPGRADING SPNB'S
CUSTOMER PAYROLL SERVICES IN-HOUSE, 1981-1985

ITEM	1981 (\$M)	1982 (\$M)	1983 (\$M)	1984 (\$M)	1985 (\$M)	AAGR (%)
REVENUES						
PROCESSING	\$ 9.1	\$10.4	\$12.1	\$14.3	\$17.2	-
DEPOSIT CREDITS	4.2	4.8	5.7	6.7	8.0	-
TOTAL REVENUES	\$13.3	\$15.2	\$17.8	\$21.0	\$25.2	17%
EXPENSES						
PROCESSING	9.0	10.3	11.3	13.3	15.0	-
DEVELOPMENT		1.5	1.0			
DEPOSIT CREDITS	0.5	0.6	0.7	0.8	1.0	-
TOTAL EXPENSES	\$ 9.5	\$12.4	\$13.0	\$14.1	\$16.0	14%
PRETAX PROFITS						
PROCESSING	0.1	(1.4)	(0.2)	1.0	2.2	-
DEPOSIT CREDITS	3.7	4.2	5.0	5.9	7.0	-
TOTAL PRETAX PROFITS	\$ 3.8	\$ 2.8	\$ 4.8	\$ 6.9	\$ 9.2	25%
PRETAX MARGINS						
PROCESSING	2%	(12%)	(2%)	7%	13%	-
DEPOSIT CREDITS	88	88	88	88	88	-
AVERAGE PRETAX MARGIN	28.6%	18.4%	27.0%	32.9%	36.5%	-

EXHIBIT VI-4

FORECAST OF REVENUES, EXPENSES AND PRETAX PROFITS
FOR STRATEGY OF OFFERING SPNB'S
CUSTOMER PAYROLL SERVICE ON A PRIVATE LABEL BASIS, 1981-1985

ITEM	1981 (\$M)	1982 (\$M)	1983 (\$M)	1984 (\$M)	1985 (\$M)	AAGR (%)
REVENUES						
PROCESSING	\$ 9.1	\$3.1	\$3.6	\$ 4.3	\$ 5.2	-
DEPOSIT CREDITS	4.2	4.8	5.7	6.7	8.0	-
TOTAL REVENUES	\$13.3	\$7.9	\$9.3	\$11.0	\$13.2	0
EXPENSES						
PROCESSING	9.0	2.6	3.1	3.7	4.4	-
DEVELOPMENT		0.3	0.3	0.2	0.2	-
DEPOSIT CREDITS	0.5	0.6	0.7	0.8	1.0	-
TOTAL EXPENSES	\$ 9.5	\$3.5	\$4.1	\$ 4.7	\$ 5.6	(14%)
PRETAX PROFITS						
PROCESSING	0.1	0.2	0.2	0.4	0.6	-
DEPOSIT CREDITS	3.7	4.2	5.0	5.9	7.0	-
TOTAL PRETAX PROFIT	\$ 3.8	\$4.4	\$5.2	\$ 6.3	\$ 7.6	19%
PRETAX MARGINS						
PROCESSING	2	6	6	9	12	-
DEPOSIT CREDITS	88	88	88	88	88	-
AVERAGE PRETAX MARGIN	28.6%	55.7%	55.9%	57.3%	57.6%	-

- Revenue growth is projected to be the same as that for the "in-house" alternatives, on the assumption that SPNB will fund the private label vendor \$1 million to upgrade the system to provide the necessary "level" of service to SPNB customers.
- Of total processing profit, a small portion (15%) accrues to SPNB for its part of the operation.
- Pretax profits rise at a 19% AAGR, resulting in a total pretax profit margin approaching \$24 million over the forecast period.

5. JOINT-VENTURE ARRANGEMENTS

- The joint-venture alternative shown in Exhibit VI-5 forecasts the greatest revenue growth: 21% AAGR over the forecast period. The combined resources of the joint-venture partners will result in annual revenues growing from 16% to 26% over the forecast period.
- Pretax profits rise at a 33% AAGR, resulting in a total pretax profit to the joint venture exceeding \$33 million.
- If the joint-venture arrangements distribute pretax processing profits to the processing partner and deposit credits to SPNB, then the total pretax profit to SPNB would be \$24 million.
- Based on the above analysis, from a dollar and cents point of view, INPUT concludes that the joint-venture alternative appears to be the best strategy.
- In that the joint venture will ensure the continued participation of SPNB in customer payroll service development, resulting in a viable national product, INPUT judges that the joint-venture route represents the smallest risk.

EXHIBIT VI-5

FORECAST OF REVENUES, EXPENSES AND PRETAX PROFITS FOR STRATEGY OF OFFERING SPNB'S CUSTOMER PAYROLL SERVICES THROUGH JOINT-VENTURE ARRANGEMENTS, 1981-1985

ITEM	1981 (\$M)	1982 (\$M)	1983 (\$M)	1984 (\$M)	1985 (\$M)	AAGR (%)
REVENUES						
PROCESSING	\$ 9.1	\$10.6	\$12.7	\$15.6	\$19.7	-
DEPOSIT CREDITS	4.2	4.9	5.9	7.3	9.2	-
TOTAL REVENUES	\$13.3	\$15.5	\$18.6	\$22.9	\$28.9	21%
EXPENSES						
PROCESSING	9.0	8.5	10.2	12.5	15.8	-
DEVELOPMENT		1.5	1.0			
DEPOSIT CREDITS	0.5	0.6	0.7	0.9	1.1	-
TOTAL EXPENSES	\$ 9.5	\$10.6	\$11.9	\$13.4	\$16.9	15%
PRETAX PROFITS						
PROCESSING	0.1	0.6	1.5	3.1	3.9	-
DEPOSIT CREDITS	3.7	4.3	5.2	6.4	8.1	-
TOTAL PRETAX PROFIT	\$ 3.8	\$ 4.9	\$ 6.7	9.5	\$12.0	33%
PRETAX MARGINS						
PROCESSING	2	6	12	20	20	-
DEPOSIT CREDITS	88	88	88	88	88	-
AVERAGE PRETAX MARGIN	28.6%	31.6%	36.0%	41.5%	41.5%	-

- If SPNB forms SPNB Business Services, yet fails to negotiate a joint venture, the recommended fall-back position is to offer customer payroll services on a private label basis.

C. JOINT-VENTURE VENDOR EVALUATION

- INPUT established the following set of characteristics to screen potential joint-venture candidates:
 - The vendor must have an existing payroll capability; that is, the vendor must be well versed in the operational aspects of pickup, data entry processing, output and delivery of payroll services.
 - The vendor must have, or have plans to install, operational centers, at least one in Southern California.
 - The vendor must have an existing payroll system capability with at least the characteristics of:
 - Phone-in payroll.
 - Screen-driven data entry.
 - A well-documented payroll system primarily in a high-level programming language.
 - A flexible report writing capability.
 - The vendor must have a demonstrated commitment to the payroll marketplace.
 - The vendor should have a national telecommunications network.

- The vendor should not be competitive with respect to its involvement in payroll processing services with other major California banks.
- As shown in Exhibit VI-6, no vendor satisfies all joint-venture requirements.
- In addition to reviewing the major computer services vendors offering payroll processing services in California, INPUT reviewed the capabilities and commitment of a number of other interested vendors:
 - ADP, the leading payroll processing vendor nationally, has the capability of managing its side of a joint-venture relationship. Its greatest drawback is the potential conflict of interest resulting from ADP's competitive position by virtue of its relationship with UCB.
 - . ADP brings to the bargaining table the ability to offer additional business and financial services, such as workman's compensation management and funds transfer services, over its national network.
 - . ADP would be one of the leading candidates for the fall-back option of offering customer payroll services on a private label basis.
 - The Service Bureau Company (SBC), with presence in the California payroll processing services marketplace, has a processing relationship with Union Bank, which in INPUT's judgement is only a marginally competitive bank situation. On the one hand, Union Bank is considerably smaller than SPNB, and on the other, SBC appears to process payroll for Union on a selective basis.
 - . Backed by Control Data Corporation (CDC), SBC is shifting to distributed processing across its product line, and plans to offer intelligent terminals for interactive data entry in the spring of 1981.

EXHIBIT VI-6

EVALUATION OF POTENTIAL JOINT-VENTURE VENDORS

JOINT-VENTURE PARTNER CHARACTERISTICS										
VENDOR	EXISTING PAYROLL CAPABILITY	OPERATIONS CENTER IN SOUTHERN CALIFORNIA	PAYROLL SYSTEM CAPABILITY				NATIONAL COMMUNICATIONS NETWORK	MARKET COMMITMENT	BANK COMPETITIVE	
			PHONE-IN	SCREEN-DRIVEN DATA ENTRY	WELL-DOCUMENTED SYSTEM	FLEXIBLE REPORT WRITER				
ADP/UCB	YES	YES	YES	YES	YES	NO	YES	YES	YES	
SBC	YES	YES	NO	YES	NATIONAL PRODUCT	YES	YES	YES	MARGINAL	
CSC	YES	YES	CASSETTE TERMINAL	NO	YES	YES	YES	ACQUIRED ITEL BUSINESS SERVICES	NO	
BRADFORD / CROCKER	YES	NO	YES	YES	YES	IMPLEMENTING	YES	YES	YES	
ANACOMP	ACQUIRING	YES	NO	NO	YES	YES	YES	YES	NO	
SUN INFO SYSTEMS	IN-HOUSE	PLANNING	NO	NO	YES	YES	YES	FORMED BANKING DIVISION	NO	
ELECTRONIC DATA SYSTEMS	YES	YES	NO	NO	YES	YES	YES	YES	NO	
XEROX COMPUTER SERVICES	YES	YES	TERMINAL	YES	YES	YES	YES	YES	NO	

- SBC's payroll product is standard throughout the country, well integrated with general business services, and interfaced with a flexible report writer for responsive custom report writing.
 - SBC is interested in "account building" by offering a variety of business services, such as human resources, cost accounting and financial planning, to payroll customers. Joint venture with SBC would expand the revenue base from SPNB customers.
- Computer Science Corporation (CSC), one of the country's premiere systems and programming houses since acquiring Itel Business Service, is considering which direction to take in offering business processing services on a national basis.
 - Well located with respect to SPNB, CSC is perhaps best motivated to invest an advanced payroll product that it can use nationally.
 - CSC's experience in managing large systems would ensure a smooth transfer of processing responsibility to the joint venture.
- Bradford has been investing in upgrading its payroll product, particularly the phone-in service for small companies.
 - Bradford has the experience of having successfully formed a joint venture with Crocker, which in itself creates a potential conflict of interest in forming another with SPNB.
 - Bradford reported that its share of net income from its joint venture, Western Bradford Trust, more than doubled in 1979.

- Through a series of acquisitions and product line expansion, Anacomp, the smallest of the potential joint-venture partners, has indicated its commitment to the bank-related business and financial services marketplace.
 - . Anacomp's strengths are in its processing relationship with medium- to large-size commercial banks.
 - . Presently in the process of acquiring payroll processing capability in California, Anacomp would probably be willing to invest in the development of a national payroll product within the joint venture.
- Sun Information Systems' (SIS) payroll expertise comes from processing payroll for its parent, Sun Oil Company.
 - . In the process of planning a California center for its Sungard disaster recovery service, and having acquired five companies in the formation of its banking division, SIS indicated that a joint venture would complement its near-term objectives of strengthening its position in the California marketplace.
 - . Having a comprehensive human resources support system under development, SIS is prepared to invest what would be necessary to create a national payroll product.
- Electronic Data Systems (EDS), well known for its systems services on behalf of commercial banks, has both the software capability and processing experience to be a capable joint-venture partner.

- . Processing payrolls nationwide, EDS uses the Wang III payroll system for its bank FM clients, and for offering payroll on a private label basis to nearly 1,000 companies. The current system does not handle phone-in payroll data using screen-driven input.
- . EDS has processing centers in San Francisco and San Diego, California.
- Xerox Computer Services (XCS), currently shifting its services offerings to large IBM mainframes, is in the process of upgrading its payroll and other business services software.
 - . Currently able to operate from intelligent terminals, XCS is shifting to screen-driven data input.
 - . With nearly 1,000 payroll users nationwide, heavily concentrated in manufacturing industries, XCS indicated strong interest in joint-venture possibilities to expand its presence in the California marketplace.

APPENDIX A: DATA BASE

EXHIBIT A-1

DISTRIBUTION OF COMPANIES BY SIZE IN CALIFORNIA, 1980

INDUSTRY	NUMBER OF COMPANIES				
	SMALL COMPANIES (REVENUES <\$5M)	MIDDLE MARKET COMPANIES (REVENUES (\$5-150M)	LARGE COMPANIES (REVENUES >\$150M)	TOTAL	PERCENT
ARGRICULTURE, FOR- ESTRY, FISHING	2,385	210	0	2,595	1.3%
MINING	502	155	1	658	0.3
CONTRACT CONSTRUCTION	15,458	898	2	16,358	8.2
MANUFACTURING	19,849	6,165	82	26,096	13.1
TRANSPORTATION AND PUBLIC UTILITIES	7,218	600	16	7,834	3.9
WHOLESALE	13,539	5,290	1	18,830	9.5
RETAIL	49,141	4,941	5	54,087	27.1
BANKING AND FINANCE	13,345	500	10	13,855	7.0
SERVICES	56,478	2,502	23	59,003	29.6
TOTAL	177,915	21,261	140	199,316	-
PERCENT	89.3%	10.6%	0.1%	-	100%

EXHIBIT A-2

DISTRIBUTION OF EMPLOYMENT
BY COMPANY SIZE IN CALIFORNIA, 1980

INDUSTRY	TOTAL NUMBER OF EMPLOYEES				
	SMALL COMPANIES (REVENUES < \$5M)	MIDDLE MARKET COMPANIES (REVENUES \$5-150M)	LARGE COMPANIES (REVENUES > \$150M)	TOTAL	PERCENT
AGRICULTURE, FORESTRY, FISHING	23,998	23,246	0	47,244	0.7%
MINING	9,076	33,840	2,410	45,326	0.6
CONTRACT CONSTRUCTION	209,498	127,644	7,300	344,442	5.0
MANUFACTURING	392,341	1,264,165	239,600	1,896,106	27.3
TRANSPORTATION AND PUBLIC UTILITIES	198,104	184,393	55,005	437,502	6.3
WHOLESALE	150,429	322,458	3,000	475,887	6.9
RETAIL	816,529	627,555	18,100	1,462,184	21.1
FINANCE, BANKING, REAL ESTATE	344,335	169,905	35,608	549,848	7.9
SERVICES	950,926	634,225	96,003	6,939,693	24.2
TOTAL	3,095,236	3,387,431	457,026	-	-
PERCENT	44.6%	48.8%	6.6%	-	100%

EXHIBIT A-3

DISTRIBUTION OF PAYROLL EXPENDITURES IN CALIFORNIA BY COMPANY SIZE, 1980

COMPANY SIZE	EXPENDITURES (\$ MILLION)				PERCENT
	MANUAL	IN-HOUSE	OUTSIDE SERVICES	TOTAL	
LARGE REVENUES (>\$150M)	\$ 0	\$ 8	\$ 4	\$ 12	5%
MIDDLE MARKET REVENUES (\$5-150M)	11	32	64	107	45
SMALL REVENUES (<\$5M)	72	12	36	120	50
TOTAL	\$83	\$52	\$104	\$239	-
PERCENT	35%	22%	43%	-	100%

EXHIBIT A-4

DISTRIBUTION OF USER PAYROLL EXPENDITURES IN CALIFORNIA
BY COMPANY SIZE, 1985

COMPANY SIZE	EXPENDITURES (\$ MILLION)				PERCENT
	MANUAL	IN-HOUSE	SERVICES	TOTAL	
LARGE REVENUES (>\$150M)	\$ 0	\$ 15	\$ 5	\$ 20	5%
MIDDLE MARKET REVENUES (\$5-150M)	0	63	117	\$180	45
SMALL REVENUES (<\$5M)	36	34	129	\$199	50
TOTAL	\$36	\$112	\$251	\$399	-
PERCENT	9%	28%	63%	-	100%

EXHIBIT A-5

MARKET FORECAST OF PAYROLL PROCESSING SERVICES IN CALIFORNIA, 1980-1985

COMPANY SIZE	SERVICES EXPENDITURES (\$ MILLION)		1985/1980 GROWTH (PERCENT)
	1980	1985	
LARGE REVENUES (>\$150M)	\$ 4	\$ 5	11%
MIDDLE MARKET REVENUES (\$5-150M)	64	117	13
SMALL REVENUES (< \$5M)	36	129	29
OVERALL	\$104	\$251	19%

EXHIBIT A-6

VENDOR SHARE OF PAYROLL SERVICES
MARKET IN CALIFORNIA, 1980

NUMBER OF SERVICES VENDOR	NUMBER OF ACCOUNTS	AVERAGE ACCOUNT SIZE	TOTAL EMPLOYEES PAID	AVERAGE ANNUAL REVENUE PER EM- PLOYEE (\$)	ANNUAL REVENUES (\$ MILLION)	MARKET SHARE (PERCENT)
BANK OF AMERICA	15,000	70	1,050,000	\$34	\$ 36	35%
ADP/UCB	11,000	60	660,000	34	22	21
SECURITY PACIFIC	4,400	50	220,000	34	8	8
BRADFORD/ CROCKER	2,700	60	162,000	34	5	5
WELLS FARGO	2,300	60	138,000	34	5	5
SBC/UNION	2,000	60	120,000	34	4	4
PAY-FONE	7,000	20	140,000	39	5	5
OTHER VENDORS	13,000	40	520,000	36	19	17
TOTAL	57,400	52	3,010,000	\$35	\$104	100%

EXHIBIT A-7

VENDOR SHARE OF CALIFORNIA PAYROLL SERVICES MARKET BY NUMBER OF EMPLOYEES, 1980

SERVICES VENDOR	NUMBER OF EMPLOYEES			
	SMALL COMPANIES (REVENUES <\$5M)	MIDDLE MARKET COMPANIES (REVENUES \$5-150M)	LARGE COMPANIES (REVENUES >\$150M)	TOTAL
BANK OF AMERICA	119,000	861,000	70,000	1,050,000
ADP/UCB	102,000	528,000	30,000	660,000
SECURITY PACIFIC	166,000	42,000	12,000	220,000
BRADFORD/CROCKER	54,000	96,000	12,000	162,000
WELLS FARGO	65,000	73,000	-	138,000
SBC/UNION	33,000	81,000	6,000	120,000
PAY-FONE	122,000	18,000	-	140,000
OTHER VENDORS	269,000	251,000	-	520,000
TOTAL	930,000	1,950,000	130,000	3,010,000

APPENDIX B: DEFINITIONS

APPENDIX B: DEFINITIONS

COMPUTER SERVICES

- Services provided by vendors that perform data processing functions using vendor computers (processing services) or assist users to perform such functions on their own computers (software products and/or professional services).
- Following are definitions of the modes of service used in this report:
 - Remote Computing Services. The provision of data processing to a user by means of terminals at the user's site(s), connected by a data communications network to the vendor's central computer. There are three submodes of RCS:
 - Interactive (timesharing) is characterized by the interaction of the user with the system, primarily for problem-solving time-sharing but also for data entry and transaction processing. The user is on-line to the program/files.
 - Remote Batch hands over control of a job to the vendor's computer, which schedules job execution according to priorities and resource requirements.

- . Date Base inquiry is characterized by the retrieval of information from a vendor-maintained data base. This may be owned by the vendor or a third party.
- . User Site Hardware Services (USHS). These are offerings, typically provided by RCS vendors, which place programmable hardware at the user's site (rather than at the EDP center). USHS offers:
 - Access to a communications network.
 - Access through the network to the RCS vendor's larger computers.
 - Significant software as part of the service.
- Batch Services. This includes data processing performed at vendors' sites, of user programs and/or data that are physically transported (as opposed to electronically by telecommunications media) to and/or from those sites. Data entry and data output services, such as keypunching and COM processing, are also included. Batch services include those expenditures by users that take their data to a vendor site, where a terminal connected to a remote computer is used for the actual processing.
- Processing Services Facilities Management (FM). FM involves the provision of processing services to the user on a long-term basis (greater than one year). The user purchases services using the vendor's computer and staff.

USE OF PROCESSING SERVICES

- Processing services encompass facilities management, remote computing services, batch services and user site hardware services. They are categorized by use as follows:
 - Transaction Processing indicates those services where the primary or predominant purpose of the application is to process transactions, usually in a highly repetitive fashion. Most business accounting fits into this category. Payroll, accounts receivable, order entry, portfolio accounting and inventory control are all good examples of transaction processing.
 - Information Analysis services are processing services where the primary or predominant purpose of the application is to convert data into information through the use of mathematical, statistical or financial analysis tools that readily and easily display the results in report or graphical form. The tools may be rapidly adapted to address a variety of nonrepetitive problems. These tools are often in the areas of financial analysis, marketing, planning and statistical analysis. Many of the techniques incorporated have their origins in scientific and engineering applications, which also generally fall within this category.
 - User Data Base Management services are processing services where the primary or predominant purpose of the application is to organize and maintain a data base of user information in a manner that facilitates its rapid and efficient retrieval and display according to user-defined parameters, either in an ad hoc or fixed form.
 - Vendor Data Base services are processing services where the primary or predominant purpose of the application is to retrieve and/or process data supplied by the vendor who controls access to it (although it may

be owned by a third party). There are two modes of delivery of this service:

- Inquiry data base services provide a means of selection and retrieval of data only. They neither provide for, nor usually allow for, the subsequent processing of the data. Stock market statistics, news services and bibliographic data bases are commonly offered in this mode.
- Application Processing services, in addition to providing a means of selection and retrieval, provide a means of further processing the data into information through the full use of information analysis tools and data base management systems, which permit the merging of vendor data with user data. Demographic, marketing and financial and economic data bases are commonly offered in this mode.

TYPES OF PROCESSING SERVICES

- Processing services are further categorized by three types:
 - Industry-Specific services provide processing for particular functions or problems unique to an industry or industry group. The applications software provided usually satisfies all of the processing requirements of a specific function within the industry, but may include application tools that are packaged to meet unique requirements of an industry. Examples of industry-specific services include tax processing for the accounting industry, seismic data processing, hospital information systems, demand deposit accounting for banks and material requirements planning for small manufacturers. Industry sectors used in this report are defined in Exhibit B-I.

EXHIBIT B-1

INDUSTRY SECTOR DEFINITIONS

INDUSTRY SECTOR	INDUSTRY SIC	INDUSTRY NAME
MANUFACTURING	23	APPAREL
	25	FURNITURE
	27	PRINTING
	31	LEATHER
	34	METAL
	35	MACHINERY
	36	ELECTRONICS
	37	TRANSPORTATION
	38	SCIENTIFIC AND CONTROL INSTRUMENTS
	39	MISCELLANEOUS MFG.
	10	METAL MINING
	11	ANTHRACITE MINING
	12	COAL MINING
	13	OIL AND GAS EXTRACTION
	20	FOOD PRODUCTS
	21	TOBACCO
	22	TEXTILE PRODUCTS
	24	LUMBER AND WOOD PRODUCTS
	26	PAPER PRODUCTS
	28	CHEMICALS
	29	PETROLEUM
	30	RUBBER AND PLASTICS
	32	STONE, GLASS, CLAY
	33	PRIMARY METALS

EXHIBIT B-1 (CONT.)

INDUSTRY SECTOR DEFINITIONS

INDUSTRY SECTOR	INDUSTRY SIC	INDUSTRY NAME
TRANSPORTATION	40	RAILROADS
	41	LOCAL TRANSIT
	42	MOTOR FREIGHT
	43	U.S. POSTAL SERVICE
	44	WATER TRANSPORTATION
	45	AIR
	46	PIPELINES
	47	TRANSPORTATION SERVICES
UTILITIES	48	COMMUNICATIONS
	49	ELECTRIC, GAS & SANITARY
BANKING AND FINANCE	60	BANKS
	61	CREDIT AGENCIES
	62	SECURITY AND COMMODITY BROKERS
	67	HOLDING AND INVESTMENT OFFICES
INSURANCE	63	INSURANCE (LIFE, HEALTH, ETC.)
	64	INSURANCE AGENTS
MEDICAL	80	HEALTH SERVICES

EXHIBIT B-1 (CONT.)

INDUSTRY SECTOR DEFINITIONS

INDUSTRY SECTOR	INDUSTRY SIC	INDUSTRY NAME
EDUCATION	82	EDUCATIONAL SERVICES
RETAIL	52	BUILDING MATERIALS, HARDWARE
	53	GENERAL MERCHANDISE
	54	FOOD
	55	AUTOMOTIVE AND GAS STATIONS
	56	APPAREL
	57	FURNITURE
	58	EATING AND DRINKING
	59	MISCELLANEOUS RETAIL
WHOLESALE	50	DURABLE GOODS
	51	NON-DURABLE GOODS
GOVERNMENT	91-97	AS APPROPRIATE
SERVICES	73	BUSINESS SERVICES

- Functionally Specific services provide products that address a specific function across multiple industry sectors. Examples are payroll, personnel, cash management systems and most general business, scientific and engineering applications.
- Nonspecific services include all services not included in the above two categories. Typical services would be based on languages, data base management systems, information retrieval software, and statistical, graphical and scientific library routines or packages. Software in this category could be used to develop applications software that would then be placed in one of the industry-specific or functionally specific categories.

PROFESSIONAL SERVICES

- This category is made up of services related to EDP, including system design, custom/contract programming, consulting, education, training and facilities management. Services are provided on the basis of:
 - Time and Materials - The billing rate is measured in units of time, rather than actual costs.
 - Fixed Price - A firm price is agreed upon for a defined piece of work.
 - Cost Plus Fee - The billing rate depends on actual costs plus a fixed fee.
 - Professional Services Facilities Management - The provision of professional or contract services to the user when the vendor's staff runs the user's computer facility.

SOFTWARE PRODUCTS

- This category includes users' purchases of applications and systems packages for use on in-house computer systems. Included are lease and purchase expenditures as well as fees for work performed by the vendor to implement and maintain the package at the users' site(s). Fees for work performed by organizations other than the package vendor are counted in professional services. There are several subcategories of software products:
 - Applications Products are software that perform processing to serve user functions. They consist of:
 - Cross-industry products, which are used in multiple user industry sectors. Examples are payroll, inventory control and financial planning.
 - Industry-specialized products, which are used in a specific industry sector such as banking and finance, transportation or discrete manufacturing. Examples are demand deposit accounting and airline scheduling.
 - System Products are software that enable the computer/communications system to perform basic functions. They consist of:
 - System operations products, which function during applications program execution to manage the computer system resource. Examples include operating systems, DBMS, communication monitors, emulators and spoolers.
 - System utilization products, which are used by operations personnel to utilize the computer system more effectively. Examples include performance measurement, job accounting, computer operations scheduling and utilities.

- System implementation products, which are used to prepare applications for execution by assisting in designing, programming, testing and related functions. Examples include languages, sorts, productivity aids, data dictionaries, report writers, project control systems, program library management systems and retrieval systems.

TURNKEY SYSTEMS

- A turnkey system is a combination of hardware and software integrated into a total system designed to fulfill the processing requirements of an application (or applications) for a user.

NOTE

- When any ambiguity arises concerning the proper place to count certain user expenditures, INPUT seeks the user's viewpoint and categorizes the expenditures accordingly.

APPENDIX C: QUESTIONNAIRES

PAYROLL PROCESSING SYSTEMS
USER QUESTIONNAIRE

Qualifying questions

1. Do you currently use an outside service to process your payroll?

☐ Yes ☐ No

If yes, go to 3.

If no: how is your payroll currently handled? _____

Why? _____

2. Do you have any plans to change your current method of handling your payroll in the next 2-3 years?

☐ Yes ☐ No

If no, Thank you: Terminate Interview

If yes, what method of processing are you considering?

☐ Don't know/haven't decided

☐ In-house

☐ Mainframe

☐ Turnkey

☐ Outside service

☐ Bank _____
Name

Services vendor _____
Name

☐

Why are you considering making this change? What reason do you have for your vendor selection?

Thank you: Terminate interview

3. Current Service

a. Who processes your payroll?	For How Long? (Years)
<input type="checkbox"/> Automatic Data Processing	
<input type="checkbox"/> Bank of America	
<input type="checkbox"/> Computer Sciences Corporation (CSC)	
<input type="checkbox"/> Crocker National Bank	
<input type="checkbox"/> Payfone	
<input type="checkbox"/> Security Pacific National Bank	
<input type="checkbox"/> Service Bureau Corporation (SBC)	
<input type="checkbox"/> Tymshare	
<input type="checkbox"/> Wells Fargo National Bank	
<input type="checkbox"/> Other (identify)	

4. Product features:

a. What are the most important features of your payroll system?
(get three)

Features:

Comments:

- b. What are the three least important features of your payroll system? (get three) _____

Features: _____

Comments: _____

- c. On a scale of 1 to 10 where ten is the highest, how would you rate the payroll service overall?

Service _____

- d. Using the same rating scale, how do you rate the documentation you receive?

Documentation _____

Comments: (i.e., clear, concise, complete, flexible) _____

- e. Customer support _____

5. Pricing

- a. What are your current payroll characteristics? Will this change in next 2-3 years?

☐ No change

☐ Don't know

	<u>Now</u>	<u>Future</u>
<input type="checkbox"/> Number of employees	_____	_____
<input type="checkbox"/> Payroll periods/month	_____	_____
<input type="checkbox"/> Average monthly bill	\$ _____	_____
<input type="checkbox"/> No locations for separate handling	_____	_____

b. How are you billed for your payroll?

☐ per check \$ _____

Amount

☐ per employee \$ _____

☐ per payroll \$ _____

☐ Other charges _____

c. Do you feel that this price is:

☐ Low How Much _____

☐ High How High _____

☐ About right

☐ Uncertain/Don't know

6. Buying cycle

a. What are the titles of the people that were involved in the decision to select your current payroll processing vendor? _____

b. Who made the decision to buy, if different (title)? _____

c. Who signed the contract, if different (title)? _____

d. How could the buying process have been improved? _____

7. Product Analysis

For each of the following payroll systems features described below, indicate if you are utilizing the features today and, if not, your interest in using such a feature in the future.

a. Data Entry

Using Today	Interested in future (1-3 yrs.)	Little/No Interest	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Single data entry form for all new employee data
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Ability to change all payable data using printed output document
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Phone in payroll data

Comments or concerns

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Direct data entry by terminal
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Need based upon <input type="checkbox"/> desire for more control <input type="checkbox"/> decreased turnaround <input type="checkbox"/> cost reduction ____% <input type="checkbox"/> increased accuracy <input type="checkbox"/> other _____

Price willing to pay for terminal

<input type="checkbox"/> \$100/mo	<input type="checkbox"/> 100-200/mo
<input type="checkbox"/> 200-300/mo	<input type="checkbox"/> 300/mo

Comments

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Use of time clock data as source document for payroll data
--------------------------	--------------------------	--------------------------	------------------------------------------------------------

Comments

b. TaxTax Impound and Reporting

Using Today	Interested in future (1-3 Yrs.)	Little/No Interest
----------------	---------------------------------------	-----------------------

☐☐☐Automatic tax impound and deposit for federal,
and California state, city and counties☐☐☐Automatic tax impound and deposit for all
states and localities

Comments or concerns _____

Power of Attorney☐☐☐

Filing of Federal and California Tax Returns

☐☐☐

Filing of Local tax returns in California

☐☐☐Filing of state and local tax returns for all
states

Comments or concerns _____

OTHER☐☐☐

Tax reporting (W-2) during the year

Comments or concerns _____

☐☐☐Tax override on vacations, bonus and
commission checks

Comments or concerns _____

c. Turn Around

Using Today	Interested in future	Little/No Interest	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Within 48 hours
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Within 24 hours

Why? Is it worth a premium to guarantee 24 hr. service? How much?

d. Labor Distribution

Using Today	Interested in future	Little/No Interest	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	From Payroll Service
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Employee hours and wages spread against (i.e. specific job, categories).
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Employee hours and wages plus employer contributions spread against (i.e. _____ _____)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Employee hours, wages plus employer contri- butions, tracking to budget (planned versus actual)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Interested in company providing automated payroll and job information to payroll vendor to prepare payroll and automated management reports.

Comments _____

e. Company Reporting

Using Today	Interested in future	Little/No Interest
----------------	-------------------------	-----------------------

☐☐☐

Vacation/sick pay accrual reporting

Comments or concerns

☐☐☐

Personnel/Human Resources

What are personnel reporting requirements?

☐ name ☐ sick and vacation accrual;☐ hire date ☐ last salary increase;☐ date and amount ☐ next review date☐ employee address ☐ other

Comments or concerns

☐☐☐Automatic Reporting (i.e., magnetic tape)
to company

Comments or concerns

☐☐☐

Standardized/customized (circle) reporting

Comments on:

(need to integrate into management reporting
system within organization)☐☐☐

Workmen's Compensation

Comments or concerns

☐☐☐

Equal Opportunity information

Comments or concerns

f. Other Features

Using Today	Interested in future	Little/No Interest
----------------	-------------------------	-----------------------

Automatic Payroll Deposit

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Bank of Record
--------------------------	--------------------------	--------------------------	----------------

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Other depositories through Automatic Clearing House (ACH)
--------------------------	--------------------------	--------------------------	--------------------------------------------------------------

Comments or concerns _____

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Standardized/Customized (Circle) paychecks
--------------------------	--------------------------	--------------------------	--------------------------------------------

Comments on degree/items, if customization _____

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Payroll account Reconciliation
--------------------------	--------------------------	--------------------------	--------------------------------

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Automated Reconciliation
--------------------------	--------------------------	--------------------------	--------------------------

Comments or concerns _____

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Other (name) _____
--------------------------	--------------------------	--------------------------	--------------------

Explain: _____

8. Related products/services:

- a. On a scale of 1 to 10 where 10 is the highest and 1 is the lowest, how would you rate the quality of the processing services you receive?
If you don't use the service, put 0

Rating

Processing Service

- ☐ Accounts Receivable Services
☐ Accounts Payable Services
☐ General Ledger Services
☐ Human Resource (Personnel) Services
☐ Other Services (identify) _____

b. What new payroll related processing services requirements do you expect to have in the next two years?

- ☐ None
- ☐ Accounts Receivable
Amplify Requirements _____
- _____
- ☐ Accounts Payable
Amplify Requirements _____
- _____
- ☐ General Ledger
Amplify Requirements _____
- _____
- ☐ Human Resources
Amplify Requirements _____
- _____
- ☐ Other (identify) _____
- Amplify Requirements _____
- _____

c. How do you see the need for other financial services related to your payroll account?

- ☐ None
- ☐ Cash Management
- ☐ Lock Box Funding Payroll
- ☐ Concentration Account Funding Payroll

Comments: _____

9. Processing service alternatives

a. Have you considered performing payroll on your own in-house computer?

☐ Yes ☐ No

If no, why not? _____

If yes, describe the situation/experience. _____

b. Have you evaluated a turnkey (hardware/software) payroll system in the last two years?

☐ Yes ☐ No

If yes, name vendors evaluated and reasons for not buying

If no, what would make a turnkey system most appealing to you?

c. What would induce you to switch your payroll processing services to another vendor?

☐ Price How much differential _____☐ Features What features _____☐ Service What improvement _____☐ Other (Please explain) _____

d. On a scale of 1 to 10 where 10 is highest, please rate vendors with which you are familiar. If not familiar put 0.

Automatic Data Processing (ADP)
Comments on performance

Bank of America
Comments on performance

Computer Sciences Corporation
Comments on performance

Crocker National Bank
Comments on performance

Security Pacific National Bank
Comments on performance

Service Bureau Corporation (SBC)
Comments on performance

Tymshare
Comments on performance

Wells Fargo National Bank
Comments on performance

Other (identify)

Why?

10. How do you see your requirements for payroll service being affected by pending/future state/federal regulations?

☐

Don't/Don't know

VENDOR QUESTIONNAIRE
COMPUTER PAYROLL PROCESSING SERVICES

1. Does your firm market computer processing services for payroll processing?

_____ Yes _____ No

2. Briefly describe the functions of your processing service offering.

3. What other services are integrated with this offering? _____

4. What mode of delivery is used?

☐ Interactive Remote Computing

☐ Remote Batch

☐ Batch Processing

☐ Other _____
Please Specify

5. Do you offer this capability as a separately priced product as well as a service?

_____ Yes _____ No

6. If yes, list hardware capability

7. What is the selling method for your payroll service?

☐ Dedicated sales force selling only payroll processing services

☐ Dedicated sales force selling payroll and accounting processing services

☐ Sales force selling variety of products and services (identify) _____

☐ Direct Mail Only

☐ Telephone Only

☐ Other (describe) _____

8. Who is involved in the buyers decision making process (title)? _____

9. Who decides to buy your service (title) if different? _____

10. Who signs the contract (title) if different? _____

11. What type of support is provided to the client as a part of the service? Which are separately priced?

Separately priced

Part of Service

☐☐

Initial Training

☐☐

On-going training

☐☐

Conversion training

☐☐

Problem identification and resolution

☐☐

Service documentation

☐☐

Other (describe) _____

12. What features distinguish your payroll service from those of your major competitors?

13. How do users/customers justify the product?

☐

Outright cost reduction

☐

Cost avoidance

☐

Do not attempt to justify

☐

Other

Why? Please Explain _____

14. Rate the importance of the following factors on a company's decision to use outside payroll processing. Use a scale of 1 to 10 where 1 is the lowest impact and 10 is the highest impact.

RATING	FACTOR
_____	Low Price
_____	Extension Product Features
_____	Integration with other products
_____	Distributed processing capability
_____	Availability of service in many cities
_____	Other (describe) _____

15. Why do your clients buy processing services rather than applications software products? _____

16. Why do your clients buy processing services rather than a turnkey system? _____

17. What are the major issues or concerns on processing service delivery that you face today? _____

18. How do you see the market changing in the next five years?
(look for price and delivery systems)

19. Is the market:

- ☐ Growing
☐ Saturated
☐ Declining

If growing, at what AAGR? _____%

20. How long is the average expected product life for products in this market?

_____ Years

21. What types of companies are the best prospects for your processing services?

\$ _____ Annual Revenue

_____ Number of Employees

_____ Other characteristics (e.g. industry, geography) _____

22. What geographical limits have you found come into play in selling your processing service?

23. Who are the other major vendors (competitors) in this field?

Company	Market Share %	Positive Features	Negative Features

24. How long does the average customer use your service?

☐ 1 Yr. ☐ 1-3 Yrs. ☐ 3 Yrs.

Comments

25. What is the average size of the customer you are serving?

Employees

☐ <10 Employees ☐ 100-300

☐ 10-25 ☐ > 300

☐ 25-50

☐ 50-100

Annual Revenues

☐ 1-2M ☐ 25-50M

☐ 2-5M ☐ 50-100M

☐ 5-10M ☐ <100M

☐ 10-25M

Comments:

26. How is your payroll processing service priced?

- ☐ Per Check Charge
- ☐ Fixed Monthly Charge
- ☐ Transaction Charge
- ☐ Computer usage charge
- ☐ Other (identify) _____

27. What is the number of personnel involved with this product?

Sales _____

Sales Support _____

Development/Maintenance _____

Management _____

Other _____

Total _____

28. Please estimate the pre-tax return on revenue for payroll processing services? _____%

29. What is the revenue from this processing service for the last two years?

LATEST FISCAL YEAR

PREVIOUS FISCAL YEAR

30. What average annual growth rate in these processing services do you foresee for the next:

Average Annual Growth Rate

two years _____

five years _____

31. What portion of your revenue for payroll services is derived from:

%

_____ California

_____ Western Region (CA, WA, OR, NEV, _____)

32. How important for the future is your payroll processing service?

33. Are there any regulatory concerns that you see impacting your payroll services in the near future (1-3 years)?

☐ None

Comments _____
